CR07736-2020

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended

   Sep 30, 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
   1220

8. Issuer's telephone number, including area code

   (02) 86323673

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

   N/A

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	332,886,167
Conso. Total Liab (as of 9.30.20 in millions Php)	1,364,440

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	Sep 30, 2020
Currency (indicate units, if applicable)	Php (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2020	Dec 31, 2019
Current Assets	650,267	638,006
Total Assets	1,987,045	1,931,177
Current Liabilities	435,468	462,762
Total Liabilities	1,364,440	1,329,117
Retained Earnings/(Deficit)	83,655	86,408
Stockholders' Equity	622,605	602,060
Stockholders' Equity - Parent	157,227	162,438
Book Value per Share	376.81	396.26

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	178,332	249,131	531,120	758,616
Gross Expense	152,199	218,423	490,860	671,102
Non-Operating Income	1,286	2,330	4,629	8,150
Non-Operating Expense	5,088	13,489	24,445	36,893
Income/(Loss) Before Tax	22,331	19,549	20,444	58,771
Income Tax Expense	6,816	6,744	8,941	19,562
Net Income/(Loss) After Tax	15,515	12,805	11,503	39,209
Net Income Attributable to Parent Equity Holder	4,524	2,705	-2,416	9,428
Earnings/(Loss) Per Share (Basic)	12.48	6.96	-10.98	24.87
Earnings/(Loss) Per Share (Diluted)	12.48	6.96	-10.98	24.87

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-11.68	27.97
Earnings/(Loss) Per Share (Diluted)	-11.68	27.97

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 3rd 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

C O V E R S H E E T

C	S	2	0	0	8	0	3	9	3	9

S. E. C. Registration Number

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

(Company's Full Name)

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

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

Virgilio S. Jacinto
Contact Person

(02) 8632-3144
Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

SEC Form 17-Q
(3rd Quarter 2020)
FORM TYPE

0	7		0	9

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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

S T A M P S

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

Remarks = Pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 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 September 30, 2020)
Common Shares	**332,886,167***

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

Total Liabilities	**P1,364,440 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2020 (with comparative figures as of December 31, 2019 and for the period ended September 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	November 16, 2020
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	November 16, 2020

ANNEX "A"

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

ASSETS

	2020 Unaudited	2019 Audited
Current Assets		
Cash and cash equivalents (Notes 2, 9 and 10)	₱ 326,831	₱ 286,677
Trade and other receivables - net (Notes 2, 5, 9 and 10)	116,192	132,907
Inventories (Note 2)	104,417	127,468
Current portion of biological assets - net	3,867	4,151
Prepaid expenses and other current assets (Notes 2, 9 and 10)	98,960	86,803
Total Current Assets	650,267	638,006
Noncurrent Assets		
Investments and advances - net (Note 2)	50,829	52,886
Investments in equity and debt instruments (Notes 9 and 10)	6,023	6,101
Property, plant and equipment - net (Notes 2 and 6)	534,614	495,814
Right-of-use assets - net (Note 2)	192,953	197,245
Investment property - net	55,971	53,528
Biological assets - net of current portion	2,577	2,808
Goodwill - net	120,352	120,392
Other intangible assets - net (Note 2)	269,369	255,836
Deferred tax assets (Note 2)	21,202	18,431
Other noncurrent assets - net (Notes 2, 5, 9 and 10)	82,888	90,130
Total Noncurrent Assets	1,336,778	1,293,171
	₱ 1,987,045	₱ 1,931,177

LIABILITIES AND EQUITY

	2020 Unaudited	2019 Audited
Current Liabilities		
Loans payable (Notes 5, 9 and 10)	₱ 177,017	₱ 178,507
Accounts payable and accrued expenses (Notes 2, 5, 9 and 10)	156,125	188,166
Lease liabilities - current portion (Notes 2, 5, 9 and 10)	27,441	27,371
Income and other taxes payable (Note 2)	22,753	21,239
Dividends payable (Note 8)	3,263	3,566
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	48,869	43,913
Total Current Liabilities	435,468	462,762
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	720,476	638,748
Lease liabilities - net of current portion (Notes 2, 5, 9 and 10)	101,408	122,466
Deferred tax liabilities	69,013	68,016
Other noncurrent liabilities (Notes 2, 5, 9 and 10)	38,075	37,125
Total Noncurrent Liabilities	928,972	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	3,943	6,401
Retained earnings:		
Appropriated	18,867	19,010
Unappropriated	64,788	67,398
Treasury stock	(76,780)	(76,780)
	157,227	162,438
Non-controlling Interests (Note 2)	465,378	439,622
Total Equity	622,605	602,060
	₱ 1,987,045	₱ 1,931,177

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

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

			For the Quarter Ended	
	2020 Unaudited	2019 Unaudited	**2020 Unaudited**	2019 Unaudited
SALES (Note 3)	₱ **531,120**	₱ 758,616	₱ **178,332**	₱ 249,131
COST OF SALES	**433,029**	607,357	**132,830**	198,224
GROSS PROFIT	**98,091**	151,259	**45,502**	50,907
SELLING AND ADMINISTRATIVE EXPENSES	**(57,831)**	(63,745)	**(19,369)**	(20,199)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(37,436)**	(40,137)	**(11,928)**	(13,185)
INTEREST INCOME	**5,065**	8,163	**1,267**	2,579
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	**38**	(13)	**89**	(184)
LOSS ON SALE OF PROPERTY AND EQUIPMENT	**(474)**	-	**(70)**	(65)
OTHER INCOME (LOSS) - Net (Note 4)	**12,991**	3,244	**6,840**	(304)
INCOME BEFORE INCOME TAX	**20,444**	58,771	**22,331**	19,549
INCOME TAX EXPENSE	**8,941**	19,562	**6,816**	6,744
NET INCOME	₱ **11,503**	₱ 39,209	₱ **15,515**	₱ 12,805
Attributable to:				
Equity holders of the Parent Company	₱ **(2,416)**	₱ 9,428	₱ **4,524**	₱ 2,705
Non-controlling interests	**13,919**	29,781	**10,991**	10,100
	₱ **11,503**	₱ 39,209	₱ **15,515**	₱ 12,805
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	₱ **(10.98)**	₱ 24.87	₱ **12.48**	₱ 6.96

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

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

			For the Quarter Ended	
	2020 Unaudited	2019 Unaudited	**2020 Unaudited**	2019 Unaudited
NET INCOME	**₱ 11,503**	₱ 39,209	**₱ 15,515**	₱ 12,805
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	**2**	51	**(1)**	43
INCOME TAX EXPENSE	**-**	(15)	**-**	(13)
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**38**	36	**24**	8
INCOME TAX EXPENSE	**(7)**	(7)	**(2)**	-
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	**(97)**	123	**(93)**	(4)
	(64)	188	**(72)**	34
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(5,144)**	(1,571)	**(1,796)**	231
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**1**	10	**(1)**	2
INCOME TAX EXPENSE	**-**	(1)	**-**	(1)
NET GAIN (LOSS) ON CASH FLOW HEDGES	**(55)**	(813)	**286**	(295)
INCOME TAX BENEFIT (EXPENSE)	**14**	244	**(88)**	89
	(5,184)	(2,131)	**(1,599)**	26
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**(5,248)**	(1,943)	**(1,671)**	60
TOTAL COMPREHENSIVE INCOME - Net of tax	**₱ 6,255**	₱ 37,266	**₱ 13,844**	₱ 12,865
Attributable to:				
Equity holders of the Parent Company	**₱ (4,494)**	₱ 8,527	**₱ 3,671**	₱ 2,639
Non-controlling interests	**10,749**	28,739	**10,173**	10,226
	₱ 6,255	₱ 37,266	**₱ 13,844**	₱ 12,865

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 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		Total		
	Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 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	-	-	-	-	-	-	-	(2,010)	-	-	-	-	-	(2,010)	(3,134)	(5,144)
Share in other comprehensive loss of associates and joint ventures - net	-	-	-	-	(8)	-	(11)	(31)	-	-	-	-	-	(50)	(47)	(97)
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(39)	-	-	-	-	-	-	-	(39)	(2)	(41)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	20	-	-	-	-	-	-	20	12	32
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	-	-	1	1	2
Other comprehensive income (loss)	-	-	-	-	(7)	(39)	9	(2,041)	-	-	-	-	-	(2,078)	(3,170)	(5,248)
Net income (loss)	-	-	-	-	-	-	-	-	-	-	(2,416)	-	-	(2,416)	13,919	11,503
Total comprehensive income (loss)	-	-	-	-	(7)	(39)	9	(2,041)	-	-	(2,416)	-	-	(4,494)	10,749	6,255
Net addition (reduction) to non-controlling interests and others	-	-	-	-	44	-	-	26	(450)	(1,844)	1,507	-	-	(717)	36,682	35,965
Appropriations - net	-	-	-	-	-	-	-	-	-	1,701	(1,701)	-	-	-	-	-
Cash dividends and distributions (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,343)	(8,343)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,913)	(5,913)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,447)	(1,447)
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,837)	(5,837)
Redeemable perpetual securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(135)	(135)
As of September 30, 2020 (Unaudited)	**P 490**	**P 260**	**P 120,501**	**P 25,158**	**P (3,091)**	**P (444)**	**P 1,542**	**P (4,981)**	**P 10,917**	**P 18,867**	**P 64,788**	**P (28,457)**	**P (48,323)**	**P 157,227**	**P 465,378**	**P 622,605**
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	-	-	-	-	-	-	-	(674)	-	-	-	-	-	(674)	(897)	(1,571)
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	73	6	-	-	-	-	-	79	44	123
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(345)	-	-	-	-	-	-	-	(345)	(224)	(569)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	25	-	-	-	-	-	-	25	13	38
Equity reserve for retirement plan	-	-	-	-	14	-	-	-	-	-	-	-	-	14	22	36
Other comprehensive income (loss)	-	-	-	-	14	(345)	98	(668)	-	-	-	-	-	(901)	(1,042)	(1,943)
Net income	-	-	-	-	-	-	-	-	-	-	9,428	-	-	9,428	29,781	39,209
Total comprehensive income (loss)	-	-	-	-	14	(345)	98	(668)	-	-	9,428	-	-	8,527	28,739	37,266
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(11)	-	-	-	(520)	-	(253)	-	-	(784)	51,817	51,033
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(14,852)	14,852	-	-	-	-	-
Cash dividends and distributions (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,241)	(9,241)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,956)	(6,956)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,353)	(2,353)
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,697)	(1,697)
As of September 30, 2019 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,896)	P (459)	P 1,542	P (2,330)	P 12,634	P 14,803	P 71,562	P (28,457)	P (48,323)	P 165,485	P 437,277	P 602,762

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

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

	2020 Unaudited	2019 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 20,444	₱ 58,771
Adjustments for:		
Interest expense and other financing charges	37,436	40,137
Depreciation, amortization and others - net	12,305	29,183
Loss on sale of property and equipment	474	-
Equity in net (earnings) losses of associates and joint ventures	(38)	13
Interest income	(5,065)	(8,163)
Operating income before working capital changes	65,556	119,941
Changes in noncash current assets, certain current liabilities and others	9,140	(468)
Cash generated from operations	74,696	119,473
Interest and other financing charges paid	(41,154)	(45,143)
Income taxes paid	(11,730)	(15,887)
Net cash flows provided by operating activities	21,812	58,443
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,485	7,930
Proceeds from sale of property and equipment	766	650
Dividends received	16	8
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(9)
Cash and cash equivalents of a consolidated (deconsolidated) subsidiary	1,053	(621)
Additions to investments and advances	(3,790)	(785)
Increase in other noncurrent assets and others	(13,238)	(32,001)
Additions to property, plant and equipment	(48,422)	(44,108)
Net cash flows used in investing activities	(59,130)	(68,936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	671,568	1,051,839
Long-term borrowings	155,134	93,462
Payments of:		
Short-term borrowings	(672,458)	(1,048,141)
Long-term borrowings	(53,296)	(60,713)
Redemption of preferred shares of subsidiaries	(42,656)	(6,782)
Cash dividends and distributions paid to non-controlling shareholders	(21,978)	(20,431)
Payments of lease liabilities	(18,123)	(15,879)
Increase in non-controlling interests and others	(1,208)	(301)
Net proceeds from issuance of capital securities and preferred shares of subsidiaries	69,780	60,898
Net cash flows provided by financing activities	86,763	53,952
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(9,291)	(902)
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,154	42,557
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	286,677	243,545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱ 326,831	₱ 286,102

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

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

					Past Due			
		Total		**Current**	**1 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**Over 90 Days**
Trade	P	68,153	P	40,985	P 5,900	P 2,774	P 1,908	P 16,586
Non-trade		50,108		22,415	1,011	476	699	25,507
Amounts Owed by Related Parties		10,780		9,530	190	5	4	1,051
Total		129,041	**P**	**72,930**	**P 7,101**	**P 3,255**	**P 2,611**	**P 43,144**
Less allowance for impairment losses		12,849						
Net	**P**	**116,192**						

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended September 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 November 5, 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.

<u>Adoption of Amended Standards and Framework</u>
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 International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and 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 definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

- 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.

The Group has adopted the below PFRS effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16, *Leases*). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

  The practical expedient will only apply if all of the following conditions are met: (a) the revised consideration is substantially the same or less than the original consideration; (b) the reduction in lease payments relates to payments originally due on or before June 30, 2021; and (c) no other substantive changes have been made to the terms and conditions of the lease.

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

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 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:

- Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The sales proceeds, together with the costs of production associated with the sales are recognized in profit or loss.

The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Onerous Contracts: Costs of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the costs of fulfilling a contract comprise both the incremental costs (e.g., direct labor and materials); and an allocation of other direct costs (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

  The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Annual Improvements to PFRS Cycles 2018 - 2020 contain changes to four standards, of which the following are applicable to the Group:

  - Fees Included in the 10 per cent Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the 10 per cent test for derecognition of financial liabilities, in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Illustrative Examples Accompanying PFRS 16 (Amendment to PFRS 16). The amendment removes the illustration of payments from the lessor relating to leasehold improvements.

  - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Reference to the Conceptual Framework (Amendments to PFRS 3). The amendments updated PFRS 3 to refer to the 2018 Conceptual Framework; added a requirement that, for transactions and other events within the scope of PAS 37 or Philippine Interpretation IFRIC 21, *Levies*, an entity applies PAS 37 or Philippine Interpretation IFRIC 21 instead of the 2018 Conceptual Framework to identify the liabilities it has assumed in a business combination; and added an explicit statement that an entity does not recognize contingent assets acquired in a business combination.

  The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022, with early application permitted.

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

PFRS 17 is effective for annual reporting 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.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The amendments clarify that the classification of a liability as current or noncurrent is based on the rights that exist at the end of the reporting period; specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; add guidance about lending conditions and how these can impact the classification; and include requirements for liabilities that can be settled using an entity's own instruments.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023, with early application permitted.

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 reporting 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 (BIR) and is still pending as at November 5, 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.

- **Consolidation of Northern Cement Corporation (NCC)**

  On June 12, 2020, the BOD and stockholders of NCC approved the amendment of the Articles of Incorporation of NCC relating to the reclassification of 194,000,000 common shares to Series "2" Preferred Shares, the option of the stockholders of the common shares to convert to Series “2” Preferred Shares and renaming the existing 3,000,000 preferred shares of NCC to Series “1” Preferred Shares. On August 6, 2020, the SEC approved the amendment of the Articles of Incorporation of NCC to reflect the amendments.

  On August 20, 2020, Lucky Star Holdings Inc. (LSHI), the stockholder of 192,816,001 common shares and the other stockholders of 1,183,996 common shares, collectively representing 65% of the common shares in NCC, exercised the option to convert their common shares to a total of 193,999,997 Series “2” Preferred Shares. San Miguel Equity Investments, Inc. (SMEII) did not exercise its option to convert its common shares to Series "2" Preferred Shares. With the conversion of the common shares of LSHI and the other stockholders to Series "2" Preferred Shares, SMEII exercised 100% voting rights and control of NCC.

As a result of SMEII obtaining 100% voting rights and control of NCC, SMEII recognized the investment in NCC at fair market value and the net assets of NCC was consolidated to SMEII as at August 20, 2020.

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

	2020
Assets	
Cash and cash equivalents	**P1,053**
Trade and other receivables - net	**82**
Inventories	**1,526**
Prepaid expenses and other current assets	**253**
Property, plant and equipment - net	**10,009**
Right-of-use assets- net	**35**
Other intangible assets - net	**4,626**
Deferred tax assets	**260**
Other noncurrent assets - net	**258**
Liabilities	
Accounts payable and accrued expenses	**(1,162)**
Income and other taxes payable	**(158)**
Lease liabilities (including current portion)	**(40)**
Other noncurrent liabilities	**(182)**
Total Identifiable Net Assets at Fair Value	**P16,560**

The fair value of the identifiable assets and liabilities in relation to the consolidation of NCC are based on provisionary amounts as at August 20, 2020, which is allowed under PFRS 3 within 12 months from the consolidation date.

A gain was recognized as a result of the business combination as follows:

	2020
Equity interest held before business combination	**P5,796**
Non-controlling interest	**10,001**
Total identifiable net assets at fair value	**(16,560)**
Gain	**(P763)**

The gain recognized from the business combination was presented as part of "Other income - net" account in the consolidated statements of income (Note 4).

The Group remeasured its equity interest held before business combination resulting in the recognition of gain amounting to P894, included as part of "Other income - net" account in the consolidated statements of income (Note 4).

The fair value of trade and other receivables amounted to P82. The gross amount of the receivables is P87, of which P5 is expected to be uncollectible as at the acquisition date.

From the date of consolidation, NCC has contributed P578 and P85 of revenues and net income to the Group's results.

If the foregoing acquisition have occurred on January 1, 2020, management estimates that it would have increased consolidated revenue and consolidated net income by P4,300 and P550, respectively.

3. Segment Information

Operating Segments

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

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

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively 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	**P194,484**	P226,186	**P17,088**	P18,649	**P85,584**	P102,530	**P213,028**	P377,193	**P10,269**	P17,788	**P10,667**	P16,270	**P -**	P -	**P531,120**	P758,616
Inter-segment sales	**75**	179	**5,158**	7,711	**2,282**	2,612	**3,402**	4,463	**2**	4	**17,040**	14,237	**(27,959)**	(29,206)	**-**	-
Total sales	**P194,559**	P226,365	**P22,246**	P26,360	**P87,866**	P105,142	**P216,430**	P381,656	**P10,271**	P17,792	**P27,707**	P30,507	**(P27,959)**	(P29,206)	**P531,120**	P758,616
Results																
Segment results	**P20,296**	P33,350	**P648**	P2,492	**P28,431**	P29,416	**(P11,653)**	P13,373	**P2,062**	P8,887	**P204**	P720	**P272**	(P724)	**P40,260**	P87,514

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	**P194,474**	P226,122	**P16,396**	P18,144	**P -**	P -	**P213,028**	P377,193	**P -**	P -	**P9,108**	P12,967	**P433,006**	P634,426
Sales recognized over time	**10**	64	**692**	505	**85,584**	102,530	**-**	-	**10,269**	17,788	**1,559**	3,303	**98,114**	124,190
Total external sales	**P194,484**	P226,186	**P17,088**	P18,649	**P85,584**	P102,530	**P213,028**	P377,193	**P10,269**	P17,788	**P10,667**	P16,270	**P531,120**	P758,616

4. Other Income - Net

Other income - net consists of:

	Note	September 30 2020	2019
Construction revenue		**P10,623**	P12,011
Miscellaneous gain		**7,941**	-
Gain on foreign exchange - net	*9*	**6,385**	3,078
Gain on fair valuation of investment	*2*	**894**	727
Dividend income		**16**	8
Construction costs		**(10,623)**	(12,011)
Loss on derivatives - net	*10*	**(2,092)**	(1,463)
Others		**(153)**	894
		P12,991	P3,244

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.

Miscellaneous gain pertains to settlement received by the Group from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts (P3,826), Tax Credit Certificates received from the BIR for the San Mig Light Tax Cases (P3,352) and the gain recognized from the consolidation of NCC (Note 2).

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 Power Sector Assets and Liabilities Management Corporation 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

Top Frontier Investment Holdings, Inc. (Top Frontier or 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 September 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	**September 30,2020**	**P -**	**P -**	**P -**	**P10,405**	On demand; interest bearing	Unsecured
	December 31, 2019	-	-	-	10,864		
	September 30,2020	**-**	**-**	**-**	**221**	On demand; non-interest	Unsecured
	December 31, 2019	-	-	-	221		
Retirement Plans	**September 30,2020**	**215**	**-**	**8,980**	**46**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2019	301	-	9,275	-		
Associates	**September 30,2020**	**1,718**	**18**	**598**	**28**	On demand; interest and non-Interest bearing	Unsecured; no impairment
	December 31, 2019	3,054	178	1,879	251		
	September 30,2020	**-**	**-**	**-**	**20,798**	Less than 1 to 10 years; Interest bearing	Unsecured and secured
	December 31, 2019	-	-	-	24,588		
Joint Ventures	**September 30,2020**	**206**	**638**	**727**	**164**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2019	364	959	755	56		
Shareholders in Subsidiaries	**September 30,2020**	**54**	**312**	**176**	**2,292**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2019	38	57	183	2,376		
Others	**September 30,2020**	**1,168**	**1,721**	**456**	**7,315**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2019	2,492	2,468	457	7,539		
Total	**September 30,2020**	**P3,361**	**P2,689**	**P10,937**	**P41,269**		
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:

September 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	5,044	164	655	200	145	2,457	33	-	39,724	48,422
Acquisition of a subsidiary	2,581	2,042	-	-	-	11,418	-	7	790	16,838
Disposals/retirement	(12)	(113)	-	(1)	(52)	(3,827)	(26)	-	(2)	(4,033)
Reclassifications	1,554	5,045	24,546	609	564	6,780	523	-	(38,400)	1,221
Currency translation adjustments	(232)	(417)	(1,994)	(672)	(503)	(1,468)	(10)	-	(1,754)	(7,050)
September 30, 2020 (Unaudited)	**76,846**	**62,313**	**146,713**	**174,323**	**19,438**	**192,170**	**7,621**	**5,670**	**93,795**	**778,889**
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	270	1,454	4,144	2,020	760	6,922	290	11	-	15,871
Acquisition of a subsidiary	88	511	-	-	-	5,894	-	6	-	6,499
Disposals/retirement	(8)	(57)	-	(2)	(43)	(2,742)	(24)	-	-	(2,876)
Reclassifications	9	109	-	-	15	(260)	(11)	-	-	(138)
Currency translation adjustments	(11)	(201)	(899)	(498)	(274)	(889)	(3)	-	-	(2,775)
September 30, 2020 (Unaudited)	**4,046**	**22,590**	**14,924**	**59,239**	**13,338**	**110,681**	**2,018**	**4,961**	**-**	**231,797**
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
Acquisition of a subsidiary	-	-	-	-	-	330	-	-	-	330
Disposals/retirement	-	-	-	-	-	(10)	-	-	-	(10)
Reclassifications	-	-	-	-	-	(2)	-	-	-	(2)
Currency translation adjustments	-	(64)	-	-	-	(236)	(1)	-	-	(301)
September 30, 2020 (Unaudited)	**-**	**2,650**	**-**	**-**	**-**	**9,232**	**23**	**573**	**-**	**12,478**
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
September 30, 2020 (Unaudited)	**P72,800**	**P37,073**	**P131,789**	**P115,084**	**P6,100**	**P72,257**	**P5,580**	**P136**	**P93,795**	**P534,614**

September 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	173	389	64	3,791	1,671	3,193	23	6	34,798	44,108
Acquisition of subsidiaries	759	67	-	-	-	29	-	-	-	855
Disposals/retirement	(4)	(49)	(2)	-	(458)	(1,870)	(17)	-	(317)	(2,717)
Reclassifications	4,681	5,777	6,465	132	230	8,091	(133)	-	(26,779)	(1,536)
Currency translation adjustments	(335)	(463)	(691)	(112)	(191)	(992)	(17)	-	(444)	(3,245)
September 30, 2019 (Unaudited)	65,573	53,117	142,401	171,966	19,045	167,785	5,485	5,600	92,548	723,520
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	158	1,351	4,078	4,807	785	6,220	236	4	-	17,639
Acquisition of subsidiaries	-	7	-	-	-	23	-	-	-	30
Disposals/retirement	(4)	(37)	-	-	(444)	(1,595)	(17)	-	-	(2,097)
Reclassifications	(17)	633	189	-	(202)	(1,968)	(49)	-	-	(1,414)
Currency translation adjustments	(53)	(99)	(283)	(207)	(110)	(456)	(6)	-	-	(1,214)
September 30, 2019 (Unaudited)	3,506	20,789	28,708	56,044	12,570	101,466	1,714	4,897	-	229,694
Accumulated Impairment Losses									-	
January 1, 2019 (Audited)	-	2,751	-	-	-	8,937	26	573	-	12,287
Acquisition of subsidiaries	3	-	-	-	-	-	-	-	-	3
Reclassifications	-	-	-	-	-	(32)	-	-	-	(32)
Currency translation adjustments	-	(126)	-	-	-	(330)	(2)	-	-	(458)
September 30, 2019 (Unaudited)	3	2,625	-	-	-	8,575	24	573	-	11,800
Carrying Amount										
September 30, 2019 (Unaudited)	P62,064	P29,703	P113,693	P115,922	P6,475	P57,744	P3,747	P130	P92,548	P482,026

Depreciation and amortization charged to operations amounted to P15,871 and P17,639 for the periods ended September 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 P3,419 for the period ended September 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 distributions to holders of convertible perpetual securities (CPS), by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Basic and diluted EPS is computed as follows:

	September 30	
	2020	2019
Net income (loss) attributable to equity holders of the Parent Company	**(P2,416)**	P9,428
Less distributions to CPS for the period	**1,213**	1,213
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(P3,629)**	P8,215
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)	**(P10.98)**	P24.87

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

As at September 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**
August 6, 2020	**August 6, 2020**	**August 7, 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
August 8, 2019	August 8, 2019	August 9, 2019	139.50

On November 5, 2020, the BOD of the Parent Company declared cash dividends at P139.50 per preferred share, payable on November 6, 2020 to shareholders owning preferred shares as at November 5, 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.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

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

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

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

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

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

Interest Rate Risk Table

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

September 30, 2020	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P33,292**	**P69,147**	**P58,460**	**P71,184**	**P55,786**	**P132,871**	**P420,740**
Interest rate	**4.3458% - 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)	**2,542**	**2,673**	**31,527**	**1,138**	**1,192**	**13,349**	**52,421**
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	**2,540**	**3,064**	**3,486**	**1,526**	**2,033**	**19,444**	**32,093**
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)	**10,895**	**31,970**	**98,001**	**110,964**	**16,636**	**4,394**	**272,860**
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**	
	P49,269	**P106,854**	**P191,474**	**P184,812**	**P75,647**	**P170,058**	**P778,114**

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 P2,287 and P2,184 for the period ended September 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.

Foreign Currency Risk

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

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

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

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

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

- changes in the timing of the hedged transactions.

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

	September 30, 2020		December 31, 2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$4,603**	**P223,305**	US$3,471	P175,846
Trade and other receivables	**652**	**31,630**	790	40,020
Prepaid expenses and other current assets	**30**	**1,452**	11	545
Noncurrent receivables	**3**	**188**	20	1,006
	5,288	**256,575**	4,292	217,417
Liabilities				
Loans payable	**309**	**14,994**	215	10,832
Accounts payable and accrued expenses	**1,237**	**87,746**	1,839	93,100
Long-term debt (including current maturities)	**6,708**	**325,281**	5,018	254,085
Lease liabilities (including current portion)	**1,186**	**57,513**	1,368	69,286
Other noncurrent liabilities	**479**	**23,233**	474	24,029
	9,919	**508,767**	8,914	451,332
Net foreign currency-denominated monetary liabilities	**(US$4,631)**	**(P252,192)**	(US$4,622)	(P233,915)

The Group reported net gains on foreign exchange amounting to P6,385 and P3,078 for the periods ended September 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
September 30, 2020	**48.50**
December 31, 2019	50.64
September 30, 2019	51.83
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**	
September 30, 2020	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P4,220)**	**(P3,341)**	**P4,220**	**P3,341**
Trade and other receivables	**(156)**	**(363)**	**156**	**363**
Prepaid expenses and other current assets	**(13)**	**(26)**	**13**	**26**
Noncurrent receivables	**-**	**(3)**	**-**	**3**
	(4,389)	**(3,733)**	**4,389**	**3,733**
Loans payable	**175**	**256**	**(175)**	**(256)**
Accounts payable and accrued expenses	**337**	**949**	**(337)**	**(949)**
Long-term debt (including current maturities)	**5,899**	**4,938**	**(5,899)**	**(4,938)**
Lease liabilities (including current portion)	**1,154**	**839**	**(1,154)**	**(839)**
Other noncurrent liabilities	**468**	**383**	**(468)**	**(383)**
	8,033	**7,365**	**(8,033)**	**(7,365)**
	P3,644	**P3,632**	**(P3,644)**	**(P3,632)**

	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 transactions on behalf of its subsidiaries to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as 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.

September 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	**P326,831**	**P326,831**	**P326,831**	**P -**	**P -**	**P -**
Trade and other receivables - net	**116,192**	**116,192**	**116,192**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,974**	**1,974**	**1,917**	**27**	**30**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**274**	**274**	**274**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income (FVOCI) (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,990**	**5,994**	**121**	**49**	**-**	**5,824**
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**255**	**272**	**113**	**36**	**123**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**24,756**	**24,784**	**-**	**235**	**23,979**	**570**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**13,423**	**13,423**	**7,234**	**5,043**	**-**	**1,146**
Financial Liabilities					**-**	**-**
Loans payable	**177,017**	**177,627**	**177,627**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	**152,083**	**152,395**	**152,395**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**4,467**	**4,467**	**2,345**	**252**	**1,870**	**-**
Long-term debt (including current maturities)	**769,345**	**917,651**	**82,821**	**136,362**	**506,148**	**192,320**
Lease liabilities (including current portion)	**128,849**	**151,746**	**31,933**	**29,525**	**53,456**	**36,832**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), deferred income and other noncurrent non-financial liabilities)	**28,595**	**28,616**	**-**	**17,646**	**9,954**	**1,016**

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	5,127	-	1,131
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.

	September 30, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand)	**P325,676**	P283,727
Trade and other receivables - net	**116,192**	132,907
Derivative assets	**1,974**	1,158
Investment in debt instruments at FVOCI	**164**	163
Investment in debt instruments at amortized cost	**255**	257
Noncurrent receivables and deposits - net	**24,756**	25,748
Restricted cash	**13,423**	12,514
	P482,440	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.

	September 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)	**P325,676**	**P -**	**P -**	**P -**	**P -**	**P325,676**
Trade and other receivables	**116,192**	**-**	**12,849**	**-**	**-**	**129,041**
Derivative assets	**-**	**-**	**-**	**1,938**	**36**	**1,974**
Investment in debt instruments at FVOCI	**-**	**-**	**-**	**-**	**164**	**164**
Investment in debt instruments at amortized cost	**105**	**150**	**-**	**-**	**-**	**255**
Noncurrent receivables and deposits	**-**	**24,756**	**600**	**-**	**-**	**25,356**
Restricted cash	**7,234**	**6,189**	**-**	**-**	**-**	**13,423**

	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:

September 30, 2020	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P40,985**	**P22,415**	**P9,530**	**P72,930**
Past due:				
1 - 30 days	**5,900**	**1,011**	**190**	**7,101**
31 - 60 days	**2,774**	**476**	**5**	**3,255**
61 - 90 days	**1,908**	**699**	**4**	**2,611**
Over 90 days	**16,586**	**25,507**	**1,051**	**43,144**
	P68,153	**P50,108**	**P10,780**	**P129,041**

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 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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

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

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

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

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

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

<u>Impairment of Financial Assets</u>
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.

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

	September 30, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P326,831**	**P326,831**	P286,677	P286,677
Trade and other receivables - net	**116,192**	**116,192**	132,907	132,907
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,974**	**1,974**	1,158	1,158
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**274**	**274**	284	284
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,990**	**5,990**	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)	**255**	**255**	257	257
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**24,756**	**24,756**	25,748	25,748
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**13,423**	**13,423**	12,514	12,514
Financial Liabilities				
Loans payable	**177,017**	**177,017**	178,507	178,507
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**152,083**	**152,083**	185,334	185,334
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**4,467**	**4,467**	3,122	3,122
Long-term debt (including current maturities)	**769,345**	**845,281**	682,661	735,514
Lease liabilities (including current portion)	**128,849**	**128,849**	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)	**28,595**	**28,595**	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 0.9% to 3.0% and 3.1% to 4.5% as at September 30, 2020 and December 31, 2019, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 0.7% and 1.6% to 2.0% as at September 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 Hedge 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			
September 30, 2020	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk:				
Call spread swaps				
Notional amount	**US$40**	**US$100**	**US$60**	**US$200**
Average strike rate	**P52.95 to P56.15**	**P52.41 to P54.94**	**P52.95 to P56.15**	
Foreign currency and interest rate risks:				
Cross currency swap				
Notional amount	**US$ -**	**US$40**	**US$290**	**US$330**
Average strike rate	**-**	**P47.00 to P57.00**	**P47.00 to P56.50**	
Fixed interest rate	**-**	**4.19% to 5.75%**	**3.60% to 5.80%**	
Interest rate risk:				
Interest rate collar				
Notional amount	**US$ -**	**US$30**	**US$60**	**US$90**
Interest rate	**-**	**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:

September 30, 2020	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk:			
US dollar-denominated borrowings	**P86**	**P -**	**(P91)**
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	**1,811**	**(1,369)**	**759**
Interest rate risk:			
US dollar-denominated borrowings	**34**	**(23)**	**-**

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:

September 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$200**	**P50**	**P104**	**Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(P86)**	**(P43)**	**P21**	**P172**	**Interest expense and other financing charges, and Other income - net**
Foreign currency and interest rate risks:									
Cross currency swap	**330**	**-**	**2,207**	**Accounts payable and accrued expenses and Other noncurrent liabilities**	**(1,811)**	**225**	**966**	**145**	**Interest expense and other financing charges, and Other income - net**
Interest rate risk:									
Interest rate collar	**90**	**-**	**34**	**Accounts payable and accrued expenses and Other noncurrent liabilities**	**(34)**	**(5)**	**-**	**5**	**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.

	September 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	**(21)**	**(43)**	-	(435)
Foreign currency risk and interest rate risk	**(1,479)**	**225**	(1,394)	50
Interest rate risk	**(41)**	**(5)**	7	-
Amount reclassified to profit or loss	**987**	**322**	721	372
Tax effect	**166**	**(152)**	200	(8)
Ending balance	**(P1,392)**	**P668**	(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 September 30 and June 30, 2020.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$437, US$754 and US$770 as at September 30 and June 30, 2020 and December 31, 2019, respectively, and with various maturities in 2020. The net negative fair value of these currency forwards amounted to P2, P196 and P175 as at September 30 and June 30, 2020 and December 31, 2019, respectively.

Currency Options

As at September 30 and June 30, 2020 and December 31, 2019, the Group has outstanding currency options with an aggregate notional amount of US$1,806, US$1,548 and US$1,278, respectively, and with various maturities in 2020. The net negative fair value of these currency options amounted to P1,072, P137 and P53 as at September 30 and June 30, 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 300 and 600 metric tons as at September 30 and June 30, 2020, respectively. The positive (negative) fair value of these swaps amounted to P1 and (P2) as at September 30 and June 30, 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 35.3, 17.2 and 12.5 million barrels as at September 30 and June 30, 2020 and December 31, 2019, respectively. The net positive (negative) fair value of these swaps amounted to P163, (P2) and P331 as at September 30 and June 30, 2020 and December 31, 2019, respectively.

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

Commodity Options
As at September 30 and June 30, 2020, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 5.3 and 2.2 million barrels, respectively. The positive fair value of these commodity options amounted to P576 and P40 as at September 30 and June 30, 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$212, US$224 and US$188 as at September 30 and June 30, 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 P136, P253 and P220 as at September 30 and June 30, 2020 and December 31, 2019, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P2,092), (P1,463), P334 and (P2,281) for the periods ended September 30, 2020 and 2019, and June 30, 2020 and 2019, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	September 30, 2020	December 31, 2019
Balance at beginning of year	**(P1,964)**	(P950)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(1,364)**	(1,807)
Not designated as accounting hedge	**(1,958)**	(3,054)
	(5,286)	(5,811)
Less fair value of settled instruments	**(2,793)**	(3,847)
Balance at end of year	**(P2,493)**	(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:

	September 30, 2020			December 31, 2019		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,974**	**P1,974**	P -	P1,158	P1,158
Financial assets at FVPL	**-**	**274**	**274**	-	284	284
Financial assets at FVOCI	**462**	**5,528**	**5,990**	443	5,510	5,953
Financial Liabilities						
Derivative liabilities	**-**	**4,467**	**4,467**	-	3,122	3,122

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

Issuance of US$400 SPCS by SMC Global Power Holdings Corp. (SMC Global)

On October 21, 2020, SMC Global issued US$400 SPCS at an issue price of 100%, with an initial rate of distribution of 7.0% per annum. The securities were listed on the Singapore Exchange Securities Trading Limited on October 22, 2020. The net proceeds will be used by SMC Global for capital expenditures, investments, refinancing of expiring commitments whether debt or perpetual securities, and for general corporate purposes.

Issuance of Series “2-J” Preferred Shares (SMC2J) by SMC

On October 29, 2020, SMC issued and listed on the Philippine Stock Exchange 266,666,667 SMC2J (inclusive of the oversubscription of 133,333,267) under its 533,333,334 series “2” preferred shares shelf subscription, with a dividend rate of 4.75% per annum at an offer price of P75.00 per share, for a total amount of P20,000. The net proceeds will be used for the Infrastructure projects, particularly the Bulacan Airport Project and Metro Rail Transit 7.

Purchase and Cancellation of P10,060 RPS by SMC

On October 19, 2020, SMC purchased and cancelled a total amount of P10,060 RPS, pursuant to the agreement with the holders of the said RPS who accepted the offer by SMC to purchase the RPS. As a result of the purchase, the RPS were cancelled in accordance with the terms and conditions of the purchase agreement between the parties.

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 September 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 September 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 September 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. <u>Long-term Debt Agreements</u>

   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 September 30, 2020 and December 31, 2019.

j. Effect of COVID-19

On March 8, 2020, under Proclamation No. 922, the Office of the President declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation No. 929, a state of calamity was declared throughout the Philippines due to the spread of the COVID-19 for a period of six months and an enhanced community quarantine (ECQ) was imposed in the island of Luzon, including the Metro Manila from March 15, 2020 to May 15, 2020. The ECQ guidelines included the restrictions on movements outside the residence, ranging from stay-at-home to total lockdowns, suspension of mass transport facilities, schools were closed and alternative work arrangements were implemented. Only essential businesses were allowed to operate, subject to certain conditions and limitations on operating capacity.

The ECQ was eased starting May 16, 2020 with government converting most cities to a modified enhanced community quarantine including the Metro Manila and Cebu until May 31, 2020 while some regions were placed under either a general community quarantine (GCQ) or a modified general community quarantine (MGCQ). On June 1, 2020, the National Capital Region was placed under GCQ which allowed certain business sectors to resume full operations such as agriculture, food manufacturing and all supply chains, including supermarkets and certain forms of public transportation. On August 4, 2020, the National Capital Region was again placed under MECQ until August 31, 2020, in view of the continuing rise of COVID-19 cases. The National Capital Region has been reverted back to GCQ on September 1, 2020 effective until December 31, 2020.

Despite a strong start in the first two months of 2020, the Group was affected by the different quarantine restrictions implemented by the government due to COVID-19. The government's relaxation of the quarantine restrictions had an immediate positive effect on the Group. The Group posted a turnaround for the nine months period as compared to the first half of this year. This was mainly driven by the performance improvements from most of the businesses during the third quarter. During the period, Beer and Spirits divisions' volumes significantly improved and Petron, in particular, bounced back to profitability. Demand for power continued to increase with the opening of more commercial and industrial establishments. Traffic volumes on operating tollways have also improved.

The Group's consolidated sales and operating income for the nine months period however remained lower than the same period last year, which still reflected the impact of the quarantine restrictions during the first half.

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 abroad where the Group has operations, the BSP, 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 September 30, 2020 and December 31, 2019 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2020 and 2019 for operating efficiency ratios.

	September 2020	December 2019
Liquidity:		
Current Ratio	**1.49**	1.38
Quick Ratio	**1.02**	0.91
Solvency:		
Debt to Equity Ratio	**2.19**	2.21
Asset to Equity Ratio	**3.19**	3.21
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**(1.40%)**	5.98%
Interest Rate Coverage Ratio	**1.55**	2.44
Return on Assets	**1.07%**	2.61%

	Period Ended September 30	
	2020	2019
Operating Efficiency:		
Volume Growth (Decline)	**(20%)**	3%
Revenue Growth (Decline)	**(30%)**	0%
Operating Margin	**8%**	12%

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

KPI	Formula
Current Ratio	Current Assets / Current Liabilities
Quick Ratio	Current Assets - Inventory - Current Portion of Biological Assets - Prepayments / Current Liabilities
Debt to Equity Ratio	Total Liabilities (Current + Noncurrent) / Equity
Asset to Equity Ratio	Total Assets (Current + Noncurrent) / Equity
Return on Average Equity	Net Income Attributable to Equity Holders of the Parent Company* / Average Equity Attributable to Equity Holders of the Parent Company
Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges
Return on Assets	Net Income* / Average Total Assets

KPI	Formula
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) -1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) -1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

ANNEX “B”

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. (“Top Frontier” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the period ended September 30, 2020 (with comparative figures as at December 31, 2019 and for the period ended September 30, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at September 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 (BIR) and still pending as at November 5, 2020.

CONSOLIDATION OF NORTHERN CEMENT CORPORATION (NCC)

On June 12, 2020, the Board of Directors (BOD) and stockholders of NCC approved the amendment of the Articles of Incorporation of NCC relating to the reclassification of 194,000,000 common shares to Series "2" Preferred Shares, the option of the stockholders of the common shares to convert to Series “2” Preferred Shares and renaming the existing 3,000,000 preferred shares of NCC to Series “1” Preferred Shares. On August 6, 2020, the SEC approved the amendment of the Articles of Incorporation of NCC to reflect the amendments.

On August 20, 2020, Lucky Star Holdings Inc. (LSHI), the stockholder of 192,816,001 common shares and the other stockholders of 1,183,996 common shares, collectively representing 65% of the common shares in NCC, exercised the option to convert their common shares to a total of 193,999,997 Series “2” Preferred Shares. San Miguel Equity Investments, Inc. (SMEII) did not exercise its option to convert its common shares to Series “2” Preferred Shares. With the conversion of the common shares of LSHI and the other stockholders to Series “2” Preferred Shares, SMEII exercised 100% voting rights and control of NCC.

As a result of SMEII obtaining 100% voting rights and control of NCC, SMEII recognized the investment in NCC at fair market value and the net assets of NCC was consolidated to SMEII as at August 20, 2020. The fair valuation of the net assets and investment in NCC resulted to the recognition of a total gain of P1,657 million, included as part of “Other income - net” account, in the consolidated statements of income.

AVAILMENT OF LONG-TERM DEBT

- **SMC**

  On March 19, 2020, SMC drew US$1,950 million from the remainder of 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)**

  On various dates in 2020, AAIPC availed of a total of P6,000 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. The proceeds of the loans are mainly for the construction of North Luzon Expressway (NLEX) - South Luzon Expressway (SLEX) Link (Skyway Stage 3) Project. The loans are 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.

c) On August 26, 2020, Petron availed of US$150 million three-year long-term debt, subject to a floating interest rate, that will mature on August 7, 2023. The proceeds were used to prepay a total amount of US$150 million term loans.

- **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 FIXED-RATE PESO-DENOMINATED BONDS AND REDEMPTION OF 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.

SMFB was able to issue P8,000 million and P7,000 million of the Series A and B Bonds, respectively, and these were 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 CAPITAL SECURITIES

- **Issuance of US$600 Million 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.

- **Issuance of Redeemable Perpetual Securities (RPS) by SMC and SMEII**

  In 2020, SMC and SMEII issued a total of P14,060 million and P1,500 million RPS at an issue price of 100%, with an initial rate of distribution of 5% and 6%, respectively. The net proceeds were used by SMC and SMEII for general corporate requirements and capital expenditures of the Cement Group, respectively.

  The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears. SMC and SMEII have the right to defer this distribution under certain conditions.

- **Issuance of US$500 Million SPCS by SMC**

  On July 29, 2020, SMC issued US$500 million SPCS at an issue price of 100%, with an initial rate of distribution of 5.5% per annum. The securities were issued under SMC's US$3,000 Million Medium Term Note and Securities Programme. The net proceeds are being used to finance investments and various projects, and for general corporate purposes.

REDEMPTION OF PREFERRED SHARES BY SMC

As approved by the BOD on March 12, 2020 and August 6, 2020, SMC redeemed on April 14, 2020 and September 21, 2020 all the outstanding 279,406,667 Series "1" Preferred Shares (SMCP1) and 89,333,400 Series "2-D" Preferred Shares (SMC2D), respectively, at a redemption price of P75.00 per share, plus any accumulated unpaid cash dividends. SMC paid a total of P27,656 million to the holders of SMCP1 and SMC2D.

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

PAYMENT OF OTHER MATURING OBLIGATIONS

During the nine-month period ended September 30, 2020, the Group paid P28,938 million of maturing obligations funded by cash generated from operations.

Petron, Infrastructure, SMC, Energy, Spirits division under Food and Beverage and other businesses paid a total of P13,802 million, P5,764 million, P4,028 million, P3,709 million, P764 million and P871 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

The Group's consolidated sales and operating income for the nine months ended September 30, 2020 amounted to P531,120 million and P40,260 million, 30% and 54% below from the previous year, respectively, which still reflected the impact of the quarantine restrictions affecting the performance of the businesses in the first half. The decline in revenue was mainly caused by the lower sales volume of Petron and the Beer and Non-Alcoholic Beverages (NAB) division under Food and Beverage business due to the implementation of lockdown and quarantine protocols. The impact on consolidated operating income was significant due to the volumes lost in the first six months of the year, the inventory losses incurred by Petron in the first half, the increase in alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the quarantine period.

Lower cost of sales by 29% to P433,029 million was mainly due to the decrease in sales volume of Petron and the Food and Beverage business, particularly the Beer and NAB and Food divisions. It was also attributable to decline in net generation, lower average cost of coal and natural gas prices, and lower power purchases by the Energy business.

The decrease in selling and administrative expenses by 9% to P57,831 million was mainly due to the drop in advertising and promotion caused by the suspension of advertising campaigns and reduced promotions due to quarantine restrictions, and decline in freight, trucking and handling brought by lower sales volume of the Beer and NAB division.

The decrease in interest expense and other financing charges was mainly due to the: (a) lower interest of the Energy business as a result of the declining principal balance of finance lease liabilities and capitalization of interest incurred by MPPCL for the construction of Unit 3 and 3 other qualifying assets - roller press, dynamic classifier and U1 turbine retrofit, and (b) lower average interest rate of Petron coupled by lower bank charges.

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

The increase in equity in net earnings was mainly due to the share in the net income of Manila North Harbour Port, Inc. (MNHPI) from five months share in 2019 to nine months in 2020. MNHPI was deconsolidated and became a joint venture effective April 2019. This was offset by the share in the higher net losses of Angat Hydropower Corporation.

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

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 nonfulfillment of obligations under procurement-related contracts, (b) income recognized by SMC and San Miguel Brewery Inc. (SMB) from the tax credit certificate issued by the BIR related to the San Mig Light Tax Case, and (c) higher gain on foreign exchange as a result of the appreciation of Philippine Peso against the US Dollar by P2.14 in September 2020 (September 2020 - P48.495 vs. December 2019 - P50.635) versus P0.75 in September 2019 (September 2019 - P51.83 vs. December 2018 - P52.58).

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

Consolidated net income for the nine-month period amounted to P11,503 million, a turnaround from the net loss of P4,012 million in the first half of the year. Consolidated net income for the third quarter amounted to P15,515 million as most of the businesses continued to sustain recoveries, with Petron bouncing back to profitability in the third quarter.

The share of non-controlling interests (NCI) on the Group's net income decreased in September 2020 mainly due to net loss of Petron in September 2020 versus net income in September 2019 and lower net income of SMB and Atlantic Aurum Investments B.V., offset by higher share of NCI on SMC Global's undated subordinated capital securities and SPCS distribution.

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

1. FOOD AND BEVERAGE

SMFB's consolidated sales amounted to P194,559 million, 14% lower than the same period in 2019. This is an improvement from its 19% decline in the first half. This was brought about by volumes improvement from Beer and Spirits divisions and sustained growth from Food division's Prepared and Packaged Food segment. This improvement was, however, slightly hindered by lower volumes from the Protein and Animal Nutrition and Health segments of the Food division.

Consolidated operating income and net income ended at P20,531 million and P14,358 million, both lower by 39% and 37%, respectively.

a. Beer and NAB Division

SMB showed significant improvements in the third quarter delivering revenues of P29,689 million, more than double the P14,389 million revenue in the second quarter. However, despite these improvements, sales volumes for the nine-month period still ended 38% lower than in the same period last year.

Consolidated sales and operating income amounted to P72,482 million and P14,809 million, 30% and 47% lower than the previous year, respectively. This is an improvement from the 39% and 61% decline in the first half.

Net income amounted to P11,080 million.

Domestic Operations
Domestic operations have seen gradual recovery since the lifting of liquor bans in Metro Manila and key cities. While commercial business operations have re-opened, SMB has put in place programs to further support the shift from on-premise to home consumption. Dealers, wholesalers and modern trade outlets were provided support to help develop and actively penetrate online selling channels.

Sales volumes for the first nine months, however, were still lower by 39%. This translated to sales of P65,408 million and operating income of P14,116 million, lower by 30% and 48% than last year, respectively.

To support the ongoing recovery, SMB has been strengthening its marketing campaigns with TV and radio placements namely: the '*Inom Sweet Home 5+1*' promo and 'Pass the

Bottle' with the San Miguel Beermen. Digital brand campaigns were also rolled out to supplement traditional media and for the first time, the Oktoberfest was held over Facebook.

In addition, SMB continued to implement effective cost management initiatives via rationalized spending, tighter business controls and other cost saving programs to help sustain profitability.

International Operations
International operations similarly reflected the impact of Coronavirus Disease 2019 (COVID-19) pandemic in the countries SMB operates, specifically in Indonesia and Thailand. Nevertheless, there was double-digit growth in the Exports markets and in South China.

b. Spirits Division

Ginebra San Miguel Inc. (GSMI) sustained its volume rebound, recording an overall volume jump of 33% in the third quarter, registering September year-to-date volume which is 3% higher than last year for the same nine months period. This is a complete turnaround from the first half 10% volume decline. The strong volume recovery was mainly due to GSMI's latest thematic campaign, "One Ginebra Nation" which garnered more than 15 million combined views on Facebook and YouTube just three weeks from its launch in September, complemented by localized implementation of consumer promos and continuous efforts to expand distribution coverage.

Consolidated sales amounted to P25,343 million, 18% higher than the same period last year, while operating income and net income further grew by 41% and 67% at P3,110 million and P2,212 million, respectively.

c. Food Division

The Food division registered consolidated sales of P96,737 million in the first nine months, 4% lower compared to the previous year, primarily due to the prevailing weakness of poultry prices, slowdown in the food service and retail operations resulting from the COVID-19 quarantine restrictions, and the continuing effects of the African Swine Fever on commercial feeds. This was, however, cushioned by the solid performance of the Prepared and Packaged Foods segment, reflecting its resilience and effective operational execution in addressing the changes in consumer behavior and channel dynamics.

Revenues of the Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, declined by 11% as many food service customers, including fast food chains and *lechon manok* outlets were forced to close during the Enhanced Community Quarantine (ECQ). This resulted in a massive build-up of frozen chicken inventory in the second quarter. As a response, aggressive move-out plans were implemented, dropped chicken prices and developed alternative trade channels - notably community resellers - to push volumes and help bring down inventory.

Animal Nutrition and Health segment revenues dropped 5%, resulting from weaker hog and broiler feeds sales, and lower average selling prices arising from price adjustments. Third quarter sales, however, turned in revenue growth.

The Prepared and Packaged Food segment revenues grew 9% for the nine months period as packaged food has become an essential item in the consumers' baskets under the new normal. Canned meats, particularly Purefoods Corned Beef and SPAM, as well as Tender Juicy Hotdogs delivered double digit revenue growth. Dairy products and breakfast items were also big hits during the quarantine.

The Flour segment revenues, meanwhile, remained flat, with the slowdown in volumes from the institutional customers. The retail sector, however, continued to grow on the back of increased demand for baking premixes and baking ingredient products amidst rising consumer interest for home baking.

All these resulted to the Food division's consolidated operating income of P2,658 million, lower by 17% from the same period last year, and consolidated net income of P1,548 million, 13% lower than last year.

2. PACKAGING

The Packaging business also showed improvements in the Philippine operations during the third quarter, registering an increase in deliveries to pharmaceutical, beverage, and food customers as well as to exports market. Australia, Malaysia and China operations remained stable. Sales, however, still fell behind last year for the nine months period.

Sales and operating income amounted to P22,246 million and P649 million, down by16% and 74%, respectively.

3. ENERGY

SMC Global posted off-take volumes of 19,825 gigawatt hours (GWH) for the nine-month period, which was 8% lower compared to the same period last year. This was due to power outages from the Sual and Ilijan Power Plants, the deferral of the commencement to supply Manila Electric Company (Meralco) under the 290MW mid-merit power supply agreements and the 260MW extended contract pending Energy Regulatory Commission (ERC) approval. The provisional approval of the ERC on the mid-merit contract was posted and distributed to the parties only on March 16, 2020, while the approval on the extension is still pending.

Combined with the lower contract rates with Meralco's baseload power supply agreements that took effect on December 26, 2019, consolidated sales amounted to P87,866 million, 16% lower versus last year.

Lower fuel costs and spot purchases, mixed with power dispatch strategies resulted in operating income of P28,989 million, only 3% lower versus the same period last year. Net income, on the other hand, amounted to P14,480 million, 27% higher than last year.

SMC Global's Masinloc Power Plant Unit 3 with 335MW capacity has officially commenced operation last September 26, 2020, which now brings its total capacity to 4,697MW.

4. FUEL AND OIL

Petron's rebound during the third quarter delivered consolidated net income of P1,630 million during this period. This was the result of stabilizing world crude prices, the government's easing of the quarantine restrictions and opening of the economy. Consolidated retail volumes registered a 49% improvement in the third quarter, with Philippine operations improving by 33% compared with the second quarter. Domestic volume has been recovering well with most of the Petron stations in the country operating under normal hours since August. Modest inventory gains have also been realized in the third quarter, a turnaround from inventory losses in the first half.

Petron's performance for the nine months period, however, still reflected the impact of the challenges the past six months. Consolidated sales settled at P216,430 million, 43% lower than last year with consolidated sales volume from both the Philippine and Malaysian operations also down 24% to 59.5 million barrels from 78.7 million barrels a year ago.

Consolidated operating loss and net loss amounted to P10,364 million and P12,606 million, respectively.

Global oil prices remained depressed with benchmark crude averaging US$41.5 per barrel during the last three months and refining cracks barely recovering from its lowest point of US$2.20 per barrel in September to current levels of around US$2.80 per barrel.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads traffic volumes likewise saw some improvements during the third quarter compared to the first half, but traffic volumes for the nine months period were still down by 37%.

Consolidated sales for the nine months period amounted to P10,271 million, 42% lower than last year, while operating income stood at P2,140 million.

SMC Infrastructure business delivered on its major commitments, completing the structure of Skyway Stage 3 project, linking SLEX and NLEX.

Skyway Stage 3 is scheduled to soft-open by December. Travel time from SLEX to NLEX will be around 30 minutes, from around three hours previously.

2019 vs. 2018

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

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

Selling and administrative expenses increased by 6% at P63,745 million compared to 2018. The increase was mainly due to the: (a) higher distribution costs, advertising and promotions, and depreciation and amortization expenses of SMB, (b) full nine months operations of Masinloc Power Plant, Malita Power Plant Unit 2 and Limay Power Plant Unit 3, and higher personnel expenses of the Energy business, and (c) higher logistics costs and personnel expenses of the Food division.

The Group's consolidated operating income amounted to P87,514 million, 9% lower than 2018, as Petron continued to be weighed down by the effect of volatile world crude oil prices, weak refining margins and lower volumes. The Food division also continues to be affected by rising raw material costs in most of its segments. The decline, however, was moderated by the Beer and NAB and Spirits divisions and the Energy business' strong results during the period in 2019.

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 cash equivalents.

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

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

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

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

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

The share of NCI decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in share of NCI on the Food and Beverage business' 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 nine-month period in 2019 reached P226,365 million, 10% higher than P206,620 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volumes. Consolidated operating income, however, ended slightly lower at P33,585 million on account of the decline in the Food division's performance.

Net income stood at P22,922 million, which is flat versus the same period in 2018.

a. Beer and NAB Division

SMB kept its growth trend during the nine-month period in 2019, with consolidated volumes reaching 222.0 million cases, 8% higher than 2018.

Domestic Operations

Domestic operations volumes grew 9% from 2018 which continue to benefit from the ongoing campaigns and consumer and trade programs that further strengthened the equity and brand awareness for the portfolio of beer products, in particular, Red Horse and San Miguel Pale Pilsen, maintaining its position as the top selling brands for SMB.

International Operations
International operations, meanwhile, continue to deliver favorable revenue and operating income growth on the back of improved performances of Exports, Vietnam and Thailand.

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

Net income grew to P19,835 million, 12% higher from 2018.

b. Spirits Division

GSMI's September year-to-date 2019 volumes remained strong posting a 15% growth from 2018. GSMI's key brands continue to benefit from the thematic campaigns *"Pilipino Ako, Ginebra Ako"* of Ginebra San Miguel, *"Lakas sa Magandang Bukas"* of Vino Kulafu and "I Choose Mojito" of GSM Blue, as well as, the 2019 Jersey collection promo, wider sales distribution and numerous on-ground activations. Sales reached P21,430 million, 20% higher than 2018.

Backed by strong volumes, higher revenues and lower costs, operating income hit P2,209 million, 66% higher than 2018's level.

Net income hit P1,325 million, 68% higher from 2018.

c. Food Division

The Food division's consolidated sales for the nine-month period 2019 amounted to P101,054 million, 6% higher than 2018 with all its businesses posting revenue growth driven by better selling prices.

Protein segment revenues grew 5%, driven by improvements in poultry prices, backed by higher chicken sales from its stable-priced channels and the shift of consumer preferences to chicken from pork due to the African Swine Fever disease outbreak that hit Luzon and Metro Manila. During the third quarter, poultry prices have shown signs of recovery which were higher compared to 2018. Year-to-date average prices, however, is still lower compared to 2018's level.

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

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

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

The Food division's operating income for the first nine months, however, ended significantly lower than 2018 at P3,209 million mainly due to lower poultry prices at the start of the year and higher raw material costs of most of its businesses.

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

2. PACKAGING

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

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

3. ENERGY

SMC Global posted consolidated off-take volume of 21,581 GWH for the nine months period in 2019, 22% higher than the same period in 2018. This was the result of higher bilateral sales volume and improved operations from Sual, Ilijan and San Roque Power Plants alongside the additional power generated from the Limay and Malita Power Plants as well as the full nine-month operation of Masinloc power plant. This pushed consolidated sales to reach P105,142 million, up 18% from P89,111 million in 2018.

Consequently, consolidated operating income increased by 16% to P29,974 million, while consolidated net income ended at P11,385 million, more than double compared to 2018's level.

4. FUEL AND OIL

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

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

5. INFRASTRUCTURE

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

III. FINANCIAL POSITION

<u>2020 vs. 2019</u>

Consolidated total assets as at September 30, 2020 amounted to about P1,987,045 million, P55,868 million or 3% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents, property, plant and equipment and other intangible assets, offset by the decrease in trade and other receivables and inventories.

The increase in cash and cash equivalents by P40,154 million was mainly due to the net proceeds from the issuance by SMC of US$1,950 million long-term corporate notes, US$500 million SPCS and P14,810 million RPS, and SMC Global of US$600 million SPCS. The increase was reduced by SMC's redemption of SMCP1 and SMC2D and payment of corporate notes, various capital expenditures of the Group, and payment of lease liabilities by the Energy business.

The decrease in trade and other receivables by P16,715 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 P23,051 million was attributable mainly to lower prices of both crude and finished products of Petron Philippines and Petron Malaysia. This was partly offset by the Food division's higher inventories primarily due to the build-up of finished goods and other major raw materials in preparation for the Christmas season and buying of corn during the harvest/buying season.

The decrease in total biological assets by P515 million was mainly due to the closure of some farms affected by the African Swine Fever.

The increase in prepaid expenses and other current assets by P12,157 million was primarily due to the: (a) receipt of tax credit certificates for the San Mig Light Case by SMC and SMB, (b) net addition to restricted cash by MPPCL and SMC Consolidated Power Corporation, (c) increase in input taxes by Universal Power Solutions, Inc. related to the importations for the BESS projects, (d) unused creditable withholding taxes and higher specific tax by Petron.

The increase in property, plant and equipment by P38,800 million was mainly due to the: (a) on-going projects of the Energy business, the Food division, and the Beer and NAB division, (b) various fixed asset purchases by Petron, and (c) acquisition of land in Pandacan, Manila by San Miguel Holdings Corp.

The increase in investment property by P2,443 million was mainly due to the acquisition of land for the Airport Project.

The increase in other intangible assets by P13,533 million was mainly due to the costs of various projects of the Infrastructure business, net of amortization during the period, and the mineral rights recognized upon consolidation of NCC.

The increase in deferred tax assets by P2,771 million was mainly due to the recognized deferred tax on net operating loss carry-over (NOLCO) of Petron and SMFI.

The decrease in other noncurrent assets by P7,242 million was mainly due to the: (a) Citra Central Expressway Corp.'s (CCEC) recoupment of advances to contractors for the Skyway Stage 3 Project, (b) SMC TPLEX Corporation's reclassification from noncurrent to current of subsidy receivable due for collection this year, (c) SMC's reclassification to debt issue cost of the loan facilitation fees and other filing and agency fees on loan facilities entered in 2019, and (d) SMB's amortization of deferred containers and reclassification of advances to suppliers to property, plant and equipment.

The decrease in accounts payable and accrued expenses by P32,041 million was mainly due to lower liabilities for crude and petroleum products brought about by the drop in prices as at end of September 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in income and other taxes payable by P1,514 million was mainly due to the: (a) increase in SPPC, SMEC and MPPCL's output VAT services clearing in relation to slower collections and installment payment scheme of trade receivables starting ECQ, (b) Petron Malaysia's higher sales tax payable, offset by the (c) Beer and NAB division's lower taxable income this period compared to fourth quarter of 2019 brought about by the COVID-19 pandemic.

The decrease in dividends payable by P303 million was mainly due to the payment in 2020 of the P295 million dividend payable to the holders of Series "1" Preferred Shares which was outstanding as at December 31, 2019. The Series "1" Preferred Shares were redeemed on April 14, 2020.

The increase in total long-term debt, net of debt issue costs, by P86,684 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 the payment of maturing obligations and translation adjustments on the foreign currency-denominated loans.

The decrease in lease liabilities, net of current portion, by P21,058 million was primarily due to the payments made to PSALM by the entities under Independent Power Producer Administration (IPPA) Agreements.

The decrease in equity reserves by P2,459 million pertains mainly to the currency translation adjustments for the period resulting from the appreciation of Philippine Peso against the US Dollar.

The increase in NCI by P25,756 million was mainly due to the: (a) issuance of US$600 million SPCS by SMC Global, (b) issuance of US$500 million SPCS and P14,810 million RPS by SMC, (c) consolidation of NCC and (d) issuance of RPS by SMEII, offset by the: (e) redemption of Series "2" Preferred Shares by SMFB and SMCP1 and SMC2D by SMC, (f) dividend and distributions for the period, and (g) share of NCI on CTA, net of the share of NCI on Group's net earnings for the period.

2019 vs. 2018

Consolidated total assets as at September 30, 2019 amounted to about P1,879,352 million, P88,160 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 and July 2019, issuance of preferred shares by Petron in June 2019, and the recognition of right-of-use (ROU) assets with the adoption of PFRS 16, *Leases*, effective January 1, 2019.

The decrease in prepaid expenses and other current assets by P13,423 million was primarily due to the: (a) decrease in Petron's input tax and goods and services tax, and utilization of tax credit certificates, and (b) decrease in CCEC's net restricted cash balance to finance the Toll Collection System project. The decrease was partly offset by Petron's higher Product Replenishment claims and higher input tax for the on-going Skyway Stage 3 and Metro Rail Transit 7 (MRT 7) projects.

The decrease in property, plant and equipment by P169,382 million, the balance of the ROU assets amounting to of P199,415 million and the increase in investment property by P17,654 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets, net of current portion, by P303 million was caused by the increase in production cost, mainly due to higher feed costs.

The increase in other noncurrent assets by P12,895 million was mainly due to the: (a) advances of MPGC to suppliers and contractors for the construction of the Mariveles Power Plant,

(b) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the Tarlac-Pangasinan-La Union Expressway or TPLEX projects, and (c) purchase of new containers by SMB.

The decrease in accounts payable and accrued expenses by P11,867 million was mainly due to the settlement in 2019 of outstanding liabilities as at December 2018 to various suppliers and contractors by Petron and the Infrastructure business and the deconsolidation of MNHPI.

The increase in lease liabilities - current portion by P4,296 million pertains to the recognition of current lease liabilities for ROU assets as a result of the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under IPPA Agreements due up to September 30, 2020 by the Energy business.

The decrease in dividends payable by P183 million primarily represents the dividends paid by Citra Metro Manila Tollways Corporation to its minority shareholders.

The increase in total long-term debt, net of debt issue costs, by P30,361 million was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the US$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes by SMC. The increase was partially offset by the: (d) redemption of Series C and E bonds of SMB, (e) settlement of maturing obligations by Petron, the Energy business, SMC and the Infrastructure business, and (f) foreign currency adjustment on the US Dollar denominated loans.

The decrease in other noncurrent liabilities by P2,093 million was mainly due to the deconsolidation of MNHPI.

The decrease in equity reserves by P1,432 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 appropriated retained earnings by P14,852 million was attributable to the reversals of appropriation made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC, and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings by P22,979 million was primarily due to the reversal of appropriations and net income attributable for the period.

The increase in NCI by P58,935 million primarily pertains to the issuance of SPCS by SMC Global and issuance of preferred shares by Petron.

Equity

The increase in equity is due to:

(In millions)	**September 30**	
	2020	2019
Net addition to non-controlling interests and others	**P35,965**	P51,033
Net income during the period	**11,503**	39,209
Cash dividends and distributions	**(21,675)**	(20,247)
Other comprehensive loss	**(5,248)**	(1,943)
	P20,545	P68,052

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2020	2019
Net cash flows provided by operating activities	**P21,812**	P58,443
Net cash flows used in investing activities	**(59,130)**	(68,936)
Net cash flows provided by financing activities	**86,763**	53,952

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

Net cash flows used in investing activities included the following:

(In millions)	**September 30**	
	2020	2019
Additions to property, plant and equipment	**(P48,422)**	(P44,108)
Increase in other noncurrent assets and others	**(13,238)**	(32,001)
Additions to investments and advances	**(3,790)**	(785)
Interest received	**4,485**	7,930
Cash and cash equivalents of a consolidated (deconsolidated) subsidiary	**1,053**	(621)
Proceeds from sale of property and equipment	**766**	650
Dividends received	**16**	8
Acquisition of a subsidiary, net of cash and cash equivalents acquired	**-**	(9)

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

(In millions)	**September 30**	
	2020	2019
Proceeds from long-term debt - net	**P101,838**	P32,749
Net proceeds from issuance of capital securities and preferred shares of subsidiaries	**69,780**	60,898
Redemption of preferred shares of subsidiaries	**(42,656)**	(6,782)
Payment of cash dividends and distributions	**(21,978)**	(20,431)
Payment of lease liabilities	**(18,123)**	(15,879)
Proceeds from (payment of) short-term loans - net	**(890)**	3,698

The effect of exchange rate changes on cash and cash equivalents amounted to (P9,291 million) and (P902 million) for the periods ended September 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.

	September 2020	December 2019
Liquidity:		
Current Ratio	**1.49**	1.38
Quick Ratio	**1.02**	0.91
Solvency:		
Debt to Equity Ratio	**2.19**	2.21
Asset to Equity Ratio	**3.19**	3.21
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**(1.40%)**	5.98%
Interest Rate Coverage Ratio	**1.55**	2.44
Return on Assets	**1.07%**	2.61%

	Periods Ended September 30	
	2020	2019
Operating Efficiency:		
Volume Growth (Decline)	**(20%)**	3%
Revenue Growth (Decline)	**(30%)**	0%
Operating Margin	**8%**	12%

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	$\frac{\text{Current Assets - Inventory - Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilities}}$
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	$\frac{\text{Net Income*}}{\text{Average Total Assets}}$

KPI	Formula
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*