CR03429-2021

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
   Mar 31, 2021
2. SEC Identification Number
   CS200803939
3. BIR Tax Identification No.
   006-990-128
4. Exact name of issuer as specified in its charter
   TOP FRONTIER INVESTMENT HOLDINGS, INC.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City
   Postal Code
   1200
8. Issuer's telephone number, including area code
   (02) 8632-3481
9. Former name or former address, and former fiscal year, if changed since last report
   N.A.
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	332,886,167
Conso. Total Liab. (as of 3.31.21 in Millions Php)	1,333,555

11. Are any or all of registrant's securities listed on a Stock Exchange?
   ☑ Yes ☐ No
   If yes, state the name of such stock exchange and the classes of securities listed therein:
   Philippine Stock Exchange; Common Shares
12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc.
TFHI

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

For the period ended	Mar 31, 2021
Currency (indicate units, if applicable)	Php (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Mar 31, 2021	Dec 31, 2020
Current Assets	647,400	669,989
Total Assets	2,009,368	2,025,544
Current Liabilities	449,457	441,303
Total Liabilities	1,333,555	1,338,424
Retained Earnings/(Deficit)	89,271	85,660
Stockholders' Equity	675,813	687,120
Stockholders' Equity - Parent	161,733	159,244
Book Value per Share	388	381.69

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	201,157	214,060	201,157	214,060
Gross Expense	169,342	202,740	169,342	202,740
Non-Operating Income	1,168	1,711	1,168	1,711
Non-Operating Expense	14,353	9,530	14,353	9,530
Income/(Loss) Before Tax	18,630	3,501	18,630	3,501
Income Tax Expense	2,253	2,895	2,253	2,895
Net Income/(Loss) After Tax	16,377	606	16,377	606
Net Income Attributable to Parent Equity Holder	3,621	-2,334	3,621	-2,334
Earnings/(Loss) Per Share (Basic)	9.74	-8.29	9.74	-8.29
Earnings/(Loss) Per Share (Diluted)	9.74	-8.29	9.74	-8.29

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	12.43	10.18
Earnings/(Loss) Per Share (Diluted)	12.43	10.18

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 1st Quarter of 2021, which is hereto submitted in accordance with relevant guidelines of the Securities and Exchange Commission ("SEC") which provides that all reports of publicly-listed companies be disclosed through the PSE Edge and shall be considered as having been filed with the SEC.

Filed on behalf by:

Name	Paula Katherina Gan
Designation	Legal Counsel

C O V E R S H E E T

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S. E. C. Registration Number

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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	th		F	l	o	o	r	,		E	N	Z	O		B	l	d	g	.
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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) 8632-3143
Company Telephone Number

1	2		3	1		SEC Form 17-Q (1st Quarter of 2021)		0	7		0	9

Month Day (fiscal year end) — FORM TYPE — 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

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2021**

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 March 31, 2021)
Common Shares	**332,886,167***

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

Total Liabilities	**P1,333,555 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 March 31, 2021 (with comparative figures as of December 31, 2020 and for the period ended March 31, 2020) 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	May 14, 2021
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	May 14, 2021

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2021 AND DECEMBER 31, 2020
(In Millions)

ANNEX "A"

ASSETS

	2021 Unaudited	2020 Audited
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	P 337,073	P 347,962
Trade and other receivables - net (Notes 5, 9 and 10)	115,706	120,965
Inventories	94,697	102,828
Current portion of biological assets - net	3,261	3,401
Prepaid expenses and other current assets (Notes 2, 5, 9 and 10)	96,663	94,833
Total Current Assets	647,400	669,989
Noncurrent Assets		
Investments and advances - net (Note 2)	48,328	50,529
Investments in equity and debt instruments (Notes 9 and 10)	6,004	5,985
Property, plant and equipment - net (Note 6)	551,692	543,371
Right-of-use assets - net	190,840	192,104
Investment property - net	67,064	62,370
Biological assets - net of current portion	2,113	2,352
Goodwill	120,462	120,463
Other intangible assets - net	277,054	276,250
Deferred tax assets (Note 2)	18,488	21,262
Other noncurrent assets - net (Notes 5, 9 and 10)	79,923	80,869
Total Noncurrent Assets	1,361,968	1,355,555
	P 2,009,368	P 2,025,544

LIABILITIES AND EQUITY

	2021 Unaudited	2020 Audited
Current Liabilities		
Loans payable (Notes 5, 9 and 10)	P 146,768	P 149,475
Accounts payable and accrued expenses (Notes 5, 9 and 10)	164,907	164,897
Lease liabilities - current portion (Notes 5, 9 and 10)	28,016	27,622
Income and other taxes payable (Note 2)	20,998	21,031
Dividends payable (Note 8)	2,139	3,681
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	86,629	74,597
Total Current Liabilities	449,457	441,303
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	688,230	692,165
Lease liabilities - net of current portion (Notes 5, 9 and 10)	88,181	94,565
Deferred tax liabilities (Note 2)	67,759	70,740
Other noncurrent liabilities (Notes 5, 9 and 10)	39,928	39,651
Total Noncurrent Liabilities	884,098	897,121
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Convertible perpetual securities	25,158	25,158
Equity reserves (Note 2)	2,833	3,955
Retained earnings:		
Appropriated	25,344	21,297
Unappropriated (Note 2)	63,927	64,363
Treasury stock	(76,780)	(76,780)
	161,733	159,244
Non-controlling Interests (Note 2)	514,080	527,876
Total Equity	675,813	687,120
	P 2,009,368	P 2,025,544

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 MARCH 31, 2021 AND 2020
(In Millions, Except Per Share Data)

	2021 Unaudited	2020 Unaudited
SALES (Note 3)	₱ 201,157	₱ 214,060
COST OF SALES	149,292	181,685
GROSS PROFIT	51,865	32,375
SELLING AND ADMINISTRATIVE EXPENSES	(20,050)	(21,055)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(11,585)	(12,685)
INTEREST INCOME	847	2,087
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	320	(45)
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	1	(331)
OTHER INCOME (CHARGES) - Net (Note 4)	(2,768)	3,155
INCOME BEFORE INCOME TAX	18,630	3,501
INCOME TAX EXPENSE (Note 2)	2,253	2,895
NET INCOME	₱ 16,377	₱ 606
Attributable to:		
Equity holders of the Parent Company	₱ 3,621	₱ (2,334)
Non-controlling interests	12,756	2,940
	₱ 16,377	₱ 606
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	₱ 9.74	₱ (8.29)

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 MARCH 31, 2021 AND 2020
(In Millions)

	2021 Unaudited	2020 Unaudited
NET INCOME	₱ 16,377	₱ 606
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	-	(12)
INCOME TAX BENEFIT (EXPENSE) (Note 2)	(471)	3
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	19	21
INCOME TAX EXPENSE	(4)	(5)
SHARE IN OTHER COMPREHENSIVE LOSS OF ASSOCIATES AND JOINT VENTURES - Net	(97)	(61)
	(553)	(54)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
LOSS ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(852)	(3,302)
NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	(1)
NET GAIN (LOSS) ON CASH FLOW HEDGES	466	(45)
INCOME TAX BENEFIT (EXPENSE)	(146)	26
	(532)	(3,322)
OTHER COMPREHENSIVE LOSS - Net of tax	(1,085)	(3,376)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	₱ 15,292	₱ (2,770)
Attributable to:		
Equity holders of the Parent Company	₱ 3,421	₱ (3,256)
Non-controlling interests	11,871	486
	₱ 15,292	₱ (2,770)

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 MARCH 31, 2021 AND 2020
(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, 2021 (Audited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (3,293)**	**₱ (431)**	**₱ 1,536**	**₱ (4,827)**	**₱ 10,970**	**₱ 21,297**	**₱ 64,363**	**₱ (28,457)**	**₱ (48,323)**	**₱ 159,244**	**₱ 527,876**	**₱ 687,120**
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	**(159)**	-	-	-	-	-	**(159)**	**(693)**	**(852)**
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	**(67)**	**3**	-	-	-	-	-	**(64)**	**(33)**	**(97)**
Net gain on cash flow hedges, net of tax	-	-	-	-	-	**193**	-	-	-	-	-	-	-	**193**	**127**	**320**
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	**8**	-	-	-	-	-	-	**8**	**7**	**15**
Equity reserve for retirement plan	-	-	-	-	**(178)**	-	-	-	-	-	-	-	-	**(178)**	**(293)**	**(471)**
Other comprehensive income (loss)	-	-	-	-	**(178)**	**193**	**(59)**	**(156)**	-	-	-	-	-	**(200)**	**(885)**	**(1,085)**
Net income	-	-	-	-	-	-	-	-	-	-	**3,621**	-	-	**3,621**	**12,756**	**16,377**
Total comprehensive income (loss)	-	-	-	-	**(178)**	**193**	**(59)**	**(156)**	-	-	**3,621**	-	-	**3,421**	**11,871**	**15,292**
Net addition (reduction) to non-controlling interests and others	-	-	-	-	**(34)**	-	-	**16**	**(904)**	-	**(10)**	-	-	**(932)**	**(17,320)**	**(18,252)**
Appropriations - net	-	-	-	-	-	-	-	-	-	**4,047**	**(4,047)**	-	-	-	-	-
Cash dividends and distributions (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(2,454)**	**(2,454)**
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(2,232)**	**(2,232)**
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(703)**	**(703)**
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(2,908)**	**(2,908)**
Redeemable perpetual securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(50)**	**(50)**
As of March 31, 2021 (Unaudited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (3,505)**	**₱ (238)**	**₱ 1,477**	**₱ (4,967)**	**₱ 10,066**	**₱ 25,344**	**₱ 63,927**	**₱ (28,457)**	**₱ (48,323)**	**₱ 161,733**	**₱ 514,080**	**₱ 675,813**
As of January 1, 2020 (Audited)	₱ 490	₱ 260	₱ 120,501	₱ 25,158	₱ (3,128)	₱ (405)	₱ 1,533	₱ (2,966)	₱ 11,367	₱ 19,010	₱ 67,398	₱ (28,457)	₱ (48,323)	₱ 162,438	₱ 439,622	₱ 602,060
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(878)	-	-	-	-	-	(878)	(2,424)	(3,302)
Share in other comprehensive loss of associates and joint ventures - net	-	-	-	-	-	-	(12)	(22)	-	-	-	-	-	(34)	(27)	(61)
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(18)	-	-	-	-	-	-	-	(18)	(1)	(19)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	9	-	-	-	-	-	-	9	6	15
Equity reserve for retirement plan	-	-	-	-	(1)	-	-	-	-	-	-	-	-	(1)	(8)	(9)
Other comprehensive loss	-	-	-	-	(1)	(18)	(3)	(900)	-	-	-	-	-	(922)	(2,454)	(3,376)
Net income (loss)	-	-	-	-	-	-	-	-	-	-	(2,334)	-	-	(2,334)	2,940	606
Total comprehensive income (loss)	-	-	-	-	(1)	(18)	(3)	(900)	-	-	(2,334)	-	-	(3,256)	486	(2,770)
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(1)	-	-	23	(474)	(1,844)	1,707	-	-	(589)	15,651	15,062
Appropriations - net	-	-	-	-	-	-	-	-	-	2,192	(2,192)	-	-	-	-	-
Cash dividends and distributions (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,877)	(2,877)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,309)	(2,309)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(735)	(735)
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(834)	(834)
As of March 31, 2020 (Unaudited)	₱ 490	₱ 260	₱ 120,501	₱ 25,158	₱ (3,130)	₱ (423)	₱ 1,530	₱ (3,843)	₱ 10,893	₱ 19,358	₱ 64,579	₱ (28,457)	₱ (48,323)	₱ 158,593	₱ 449,004	₱ 607,597

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 MARCH 31, 2021 AND 2020
(In Millions)

		2021 Unaudited		2020 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱	18,630	₱	3,501
Adjustments for:				
Interest expense and other financing charges		11,585		12,685
Depreciation, amortization and others - net		12,658		12,626
Loss (gain) on sale of property and equipment		(1)		331
Equity in net losses (earnings) of associates and joint ventures		(320)		45
Interest income		(847)		(2,087)
Operating income before working capital changes		41,705		27,101
Changes in noncash current assets, certain current liabilities and others		10,440		(14,156)
Cash generated from operations		52,145		12,945
Interest and other financing charges paid		(11,131)		(13,115)
Income taxes paid		(1,321)		(2,096)
Net cash flows provided by (used in) operating activities		39,693		(2,266)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment		(13,537)		(16,330)
Additions to intangible assets		(2,189)		(2,322)
Additions to investment property		(1,857)		(377)
Increase in other noncurrent assets and others		(687)		(4,900)
Additions to investments and advances and investment in debt instruments		(348)		(287)
Interest received		789		2,022
Proceeds from sale of property and equipment		127		133
Dividends received		-		3
Net cash flows used in investing activities		(17,702)		(22,058)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		185,630		274,080
Long-term borrowings		31,001		124,295
Payments of:				
Short-term borrowings		(188,288)		(274,015)
Long-term borrowings		(26,244)		(3,584)
Redemption of capital securities and preferred shares of subsidiaries		(19,582)		(15,000)
Cash dividends and distributions paid to non-controlling shareholders		(9,888)		(6,512)
Payments of lease liabilities		(6,708)		(6,349)
Decrease in non-controlling interests and others		(167)		(138)
Net proceeds from issuance of capital securities of a subsidiary		-		30,170
Net cash flows provided by (used in) financing activities		(34,246)		122,947
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		1,366		(852)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(10,889)		97,771
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		347,962		286,677
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱	337,073	₱	384,448

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
MARCH 31, 2021
(In Millions)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 68,964	P 46,348	P 4,711	P 1,761	P 1,119	P 15,025
Non-trade	49,504	24,912	447	707	500	22,938
Amounts Owed by Related Parties	10,926	9,730	24	10	142	1,020
Total	129,394	**P 80,990**	**P 5,182**	**P 2,478**	**P 1,761**	**P 38,983**
Less allowance for impairment losses	13,688					
Net	**P 115,706**					

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 March 31, 2021 and comparative financial statements for the same period in 2020 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 May 6, 2021.

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</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards as part of PFRS.

Amended Standards Adopted in 2021

The Group has adopted the following PFRS effective January 1, 2021 and accordingly, changed its accounting policies in the following areas:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts,* and PFRS 16, *Leases*). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

    - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

- *Relief from Specific Hedge Accounting Requirements*. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

- *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments apply retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

The amendments are still subject to the approval by the FRSC.

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

Standards Issued But Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2021 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:

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16) beyond June 30, 2021. The optional practical expedient introduced in the 2020 amendments that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 and which solely applies to reduction in lease payments originally due on or before June 30, 2021 has been extended to June 30, 2022. The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond June 30, 2021.

  The 2021 amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are applied retrospectively with the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings. Earlier application is permitted.

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards of which the following are applicable to the Group:

  - Fees 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, the fees paid net of fees received included in the discounted cash flows include 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.

  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

- 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. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

  - added an explicit statement that an acquirer 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. Earlier application is permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

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

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, 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.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

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

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

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

2. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law

The CREATE Act, which seeks to reduce the Corporate Income Tax Rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021. One of the key provisions of the CREATE Law is an immediate 5%-10% point cut in the corporate income tax rate starting July 2020. As a result, the Group has taken up in the books the effect of the application of reduced corporate income tax rate from 30% to 25%.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE law are as follows:

	Increase (decrease)
ASSETS	
Prepaid expenses and other current assets	P407
Investments and advances - net	9
Deferred tax assets	(2,080)
	(P1,664)
LIABILITIES	
Income and other taxes payable	(P881)
Deferred tax liabilities	(3,892)
	(P4,773)

	Increase (decrease)
EQUITY	
Equity reserves	(P217)
Retained earnings	2,216
Non-controlling interests	1,110
	3,109
TOTAL LIABILITIES AND EQUITY	**(P1,664)**

INCOME BEFORE INCOME TAX	
Equity in net earnings of associates and joint ventures	P9
INCOME TAX EXPENSE	
Current	(1,299)
Deferred	(2,319)
	(3,618)
NET INCOME	**P3,627**
Attributable to:	
Equity holders of the Parent Company	P2,216
Non-controlling interests	1,411
	P3,627

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 contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the 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 and bulk water.

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. Such transactions are eliminated in consolidation.

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement, Real Estate, Mining and Others		Eliminations		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Sales																
External sales	**P76,341**	P68,973	**P6,035**	P5,789	**P26,411**	P27,475	**P81,999**	P103,127	**P4,330**	P4,660	**P6,041**	P4,036	**P -**	P -	**P201,157**	P214,060
Inter-segment sales	**21**	45	**1,319**	2,707	**955**	823	**1,308**	1,496	**-**	1	**6,427**	5,625	**(10,030)**	(10,697)	**-**	-
Total sales	**P76,362**	P69,018	**P7,354**	P8,496	**P27,366**	P28,298	**P83,307**	P104,623	**P4,330**	P4,661	**P12,468**	P9,661	**(P10,030)**	(P10,697)	**P201,157**	P214,060
Results																
Segment results	**P12,491**	P8,565	**P393**	P570	**P8,237**	P7,637	**P8,599**	(P6,637)	**P1,156**	P1,746	**P597**	(P680)	**P342**	P119	**P31,815**	P11,320

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		Cement, Real Estate, Mining and Others		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Timing of revenue recognition														
Sales recognized at point in time	**P76,339**	P68,971	**P5,834**	P5,580	**P -**	P -	**P81,999**	P103,119	**P -**	P -	**P5,486**	P3,332	**P169,658**	P181,002
Sales recognized over time	**2**	2	**201**	209	**26,411**	27,475	**-**	8	**4,330**	4,660	**555**	704	**31,499**	33,058
Total external sales	**P76,341**	P68,973	**P6,035**	P5,789	**P26,411**	P27,475	**P81,999**	P103,127	**P4,330**	P4,660	**P6,041**	P4,036	**P201,157**	P214,060

4. Other Income (Charges)

Other income (charges) consists of:

	Note	March 31 2021	2020
Power Sector Assets and Liabilities Management Corporation monthly fees reduction		**P2,156**	P -
Construction revenue		**1,205**	5,073
Income for liquidated damages		**-**	1,931
Dividend income		**-**	3
Gain (loss) on derivatives - net	*10*	**(3,896)**	2,150
Construction costs		**(1,205)**	(5,073)
Loss on foreign exchange - net	*9*	**(933)**	(417)
Others		**(95)**	(512)
		(P2,768)	P3,155

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 and water concession rights as at reporting date.

Income from liquidated damages in 2020 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.

"Others" consist of rent income, commission income and changes in fair value of financial assets at fair value through profit or loss (FVPL). In 2020, the amount also includes San Miguel Yamamura Packaging Corporation Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila amounting to P295.

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. The Parent Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the consolidated total assets based on its latest audited financial statements.

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 March 31, 2021 and December 31, 2020:

	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	**March 31, 2021**	**P -**	**P -**	**P -**	**P10,412**	On demand; interest bearing	Unsecured
	December 31, 2020	-	-	-	10,304		
	March 31, 2021	**-**	**-**	**-**	**221**	On demand; non-interest	Unsecured
	December 31, 2020	-	-	-	221		
Retirement Plans	**March 31, 2021**	**65**	**-**	**9,117**	**-**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2020	294	-	9,044	-		
Associates	**March 31, 2021**	**341**	**-**	**649**	**28**	On demand; interest and non-Interest bearing	Unsecured; no impairment
	December 31, 2020	2,086	18	761	29		
	March 31, 2021	**-**	**-**	**-**	**16,157**	Less than 1 to 10 years; Interest bearing	Unsecured and secured
	December 31, 2020	-	-	-	16,925		
Joint Ventures	**March 31, 2021**	**63**	**694**	**739**	**226**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	272	1,484	742	521		
Shareholders in Subsidiaries	**March 31, 2021**	**26**	**88**	**207**	**2,274**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	60	470	187	2,250		
Others	**March 31, 2021**	**693**	**786**	**360**	**117**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	1,730	2,574	492	11		
	March 31, 2021	**-**	**-**	**-**	**7,397**	More than one year; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2020	-	-	-	7,277		
Total	**March 31, 2021**	**P1,188**	**P1,568**	**P11,072**	**P36,832**		
Total	December 31, 2020	P4,442	P4,546	P11,226	P37,538		

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 per annum will accrue beginning on the relevant year when SMC has commenced the management and operations of its 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 receivable, advances to suppliers 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 payable to Bank of Commerce (BOC) presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

6. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2021 and December 31, 2020

	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, 2020 (Audited)	P67,911	P55,592	P123,506	P174,187	P19,284	P176,810	P7,101	P5,663	P93,437	P723,491
Additions	1,272	342	953	446	560	3,717	66	-	56,481	63,837
Consolidation of a subsidiary	2,581	2,042	-	-	-	11,418	-	7	790	16,838
Disposals/retirement	(20)	(172)	-	(5)	(91)	(5,189)	(28)	-	(38)	(5,543)
Reclassifications and others	1,564	8,624	24,903	1,757	349	12,673	566	-	(49,461)	975
Currency translation adjustments	(143)	(261)	(2,671)	(430)	(315)	(750)	10	-	(1,557)	(6,117)
December 31, 2020 (Audited)	73,165	66,167	146,691	175,955	19,787	198,679	7,715	5,670	99,652	793,481
Additions	664	21	64	252	42	828	4	-	11,662	13,537
Disposals/retirement	(1)	(51)	-	-	(45)	(481)	(47)	-	(4)	(629)
Reclassifications and others	671	1,206	44	1,051	(47)	2,876	32	-	(4,995)	838
Currency translation adjustments	(74)	2	729	(239)	(174)	11	-	-	(198)	57
March 31, 2021 (Unaudited)	**74,425**	**67,345**	**147,528**	**177,019**	**19,563**	**201,913**	**7,704**	**5,670**	**106,117**	**807,284**
Accumulated Depreciation and Amortization										
January 1, 2020 (Audited)	3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	380	2,001	5,713	3,128	1,028	9,493	397	14	-	22,154
Consolidation of a subsidiary	88	511	-	-	-	5,894	-	6	-	6,499
Disposals/retirement	(16)	(109)	-	(5)	(60)	(3,988)	(27)	-	-	(4,205)
Reclassifications	(5)	30	-	81	15	(248)	(39)	-	-	(166)
Currency translation adjustments	(6)	(131)	(1,103)	(318)	(172)	(454)	3	-	-	(2,181)
December 31, 2020 (Audited)	4,139	23,076	16,289	60,605	13,691	112,453	2,100	4,964	-	237,317
Depreciation and amortization	115	540	1,524	745	245	2,529	106	3	-	5,807
Disposals/retirement	(1)	(38)	-	-	(32)	(391)	(41)	-	-	(503)
Reclassifications	86	108	-	-	33	28	-	-	-	255
Currency translation adjustments	(3)	(19)	225	(174)	(99)	(55)	-	-	-	(125)
March 31, 2021 (Unaudited)	**4,336**	**23,667**	**18,038**	**61,176**	**13,838**	**114,564**	**2,165**	**4,967**	-	**242,751**
Accumulated Impairment Losses										
January 1, 2020 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Impairment	-	-	-	-	-	35	-	-	-	35
Consolidation of a subsidiary	-	-	-	-	-	330	-	-	-	330
Disposals/retirement	-	-	-	-	-	(13)	-	-	-	(13)
Reclassifications	-	-	-	-	-	(11)	-	-	-	(11)
Currency translation adjustments	-	27	-	-	-	(38)	2	-	-	(9)
December 31, 2020 (Audited)	-	2,741	-	-	-	9,453	26	573	-	12,793
Reclassifications	-	-	-	-	-	(9)	-	-	-	(9)
Currency translation adjustments	-	12	-	-	-	45	-	-	-	57
March 31, 2021 (Unaudited)	-	**2,753**	-	-	-	**9,489**	**26**	**573**	-	**12,841**
Carrying Amount										
December 31, 2020 (Audited)	P69,026	P40,350	P130,402	P115,350	P6,096	P76,773	P5,589	P133	P99,652	P543,371
March 31, 2021 (Unaudited)	**P70,089**	**P40,925**	**P129,490**	**P115,843**	**P5,725**	**P77,860**	**P5,513**	**P130**	**P106,117**	**P551,692**

March 31, 2020

	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, 2020 (Audited)	P67,911	P55,592	P123,506	P174,187	P19,284	P176,810	P7,101	P5,663	P93,437	P723,491
Additions	3,287	69	477	72	187	1,026	23	-	11,189	16,330
Disposals/retirement	(3)	(68)	-	(2)	-	(742)	(25)	-	-	(840)
Reclassifications and others	550	1,955	140	5	119	1,108	134	-	(5,577)	(1,566)
Currency translation adjustments	(214)	(211)	42	(641)	(479)	(1,124)	(32)	-	(456)	(3,115)
March 31, 2020 (Unaudited)	71,531	57,337	124,165	173,621	19,111	177,078	7,201	5,663	98,593	734,300
Accumulated Depreciation and Amortization										
January 1, 2020 (Audited)	3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	88	486	1,396	1,151	267	2,242	94	3	-	5,727
Disposals/retirement	(3)	(36)	-	(2)	-	(352)	(25)	-	-	(418)
Reclassifications	5	6	-	-	14	(1,132)	(2)	-	-	(1,109)
Currency translation adjustments	(13)	(115)	17	(474)	(261)	(801)	(11)	-	-	(1,658)
March 31, 2020 (Unaudited)	3,775	21,115	13,092	58,394	12,900	101,713	1,822	4,947	-	217,758
Accumulated Impairment Losses									-	
January 1, 2020 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Currency translation adjustments	-	(40)	-	-	-	(87)	(3)	-	-	(130)
March 31, 2020 (Unaudited)	-	2,674	-	-	-	9,063	21	573	-	12,331
Carrying Amount										
March 31, 2020 (Unaudited)	P67,756	P33,548	P111,073	P115,227	P6,211	P66,302	P5,358	P143	P98,593	P504,211

Depreciation and amortization charged to operations amounted to P5,807 and P5,727 for the periods ended March 31, 2021 and 2020, respectively.

Reclassifications and others include transfers to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party and reclassifications from capital projects in progress account to specific property, plant and equipment accounts.

In 2020, property, plant and equipment of the Group's hog farm were reclassified to idle assets due to the impact of the African Swine Fever that resulted in extended downtime of the facility, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position as at March 31, 2021 and December 31, 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:

	March 31	
	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	**P3,621**	(P2,334)
Less distributions to CPS for the period	**404**	404
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P3,217**	(P2,738)
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)	**P9.74**	(P8.29)

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

As at March 31, 2021 and 2020, 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:

2021

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 11, 2021	**March 11, 2021**	**March 12, 2021**	**P139.50**

2020

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 12, 2020	March 12, 2020	March 13, 2020	P279.00

On May 6, 2021, the BOD of the Parent Company declared cash dividends at P139.50 per preferred share, payable on May 7, 2021 to shareholders owning preferred shares as at May 6, 2021.

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:

- Liquidity Risk
- Credit Risk
- Market Risk (Interest Rate Risk, Foreign Currency Risk and Commodity Price Risk)

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at FVPL, financial assets at fair value through other comprehensive income (FVOCI), financial assets at amortized cost, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group’s corporate governance process relating to the: (a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; (b) performance of the internal auditors; (c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors’ qualifications, independence and performance; (d) compliance with tax, legal and regulatory requirements; (e) evaluation of management’s process to assess and manage the enterprise risk issues; and (f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Securities and Exchange Commission and/or the Philippine Stock Exchange, Inc.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

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

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

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

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

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

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

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

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

- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

March 31, 2021	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P43,295**	**P74,487**	**P52,272**	**P97,640**	**P36,891**	**P140,363**	**P444,948**
Interest rate	**3.875% - 12.00%**	**3.2837% - 9.885%**	**3.2837% - 9.885%**	**3.2837% - 9.885%**	**3.2837% - 9.885%**	**3.2837% - 9.885%**	
Foreign currency-denominated (expressed in Philippine peso)	**27,668**	**7,305**	**1,114**	**1,166**	**1,219**	**12,736**	**51,208**
Interest rate	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	
Floating Rate							
Philippine peso-denominated	**1,954**	**3,038**	**1,292**	**559**	**119**	**7,613**	**14,575**
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)	**14,633**	**72,724**	**59,845**	**109,640**	**11,432**	**4,192**	**272,466**
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**	
	P87,550	**P157,554**	**P114,523**	**P209,005**	**P49,661**	**P164,904**	**P783,197**

December 31, 2020	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P47,116	P67,112	P56,017	P91,422	P36,513	P136,808	P434,988
Interest rate	4.0032% - 12.00%	4.2105% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,581	1,878	31,250	1,154	1,207	12,603	50,673
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	2,572	3,876	2,321	1,442	1,618	7,646	19,475
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	23,131	27,072	104,333	107,902	3,488	4,148	270,074
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	
	P75,400	P99,938	P193,921	P201,920	P42,826	P161,205	P775,210

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 P718 and P2,895 for the period ended March 31, 2021 and for the year ended December 31, 2020, 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:

	March 31, 2021		December 31, 2020	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$4,329**	**P210,115**	US$5,054	P242,692
Trade and other receivables	**736**	**35,681**	671	32,211
Prepaid expenses and other current assets	**12**	**590**	15	749
Noncurrent receivables	**5**	**207**	4	201
	5,082	**246,593**	5,744	275,853
Liabilities				
Loans payable	**305**	**14,812**	291	14,014
Accounts payable and accrued expenses	**1,772**	**93,774**	1,955	93,987
Long-term debt (including current maturities)	**6,670**	**323,674**	6,679	320,747
Lease liabilities (including current portion)	**1,054**	**51,171**	1,131	54,306
Other noncurrent liabilities	**496**	**24,060**	479	23,023
	10,297	**507,491**	10,535	506,077
Net foreign currency-denominated monetary liabilities	**(US$5,215)**	**(P260,898)**	(US$4,791)	(P230,224)

The Group reported net losses on foreign exchange amounting to P933 and P417 for the periods ended March 31, 2021 and 2020 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
March 31, 2021	**48.53**
December 31, 2020	48.02
March 31, 2020	50.68
December 31, 2019	50.64

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**	
March 31, 2021	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P3,822)**	**(P3,653)**	**P3,822**	**P3,653**
Trade and other receivables	**(120)**	**(461)**	**120**	**461**
Prepaid expenses and other current assets	**(7)**	**(10)**	**7**	**10**
Noncurrent receivables	**-**	**(5)**	**-**	**5**
	(3,949)	**(4,129)**	**3,949**	**4,129**
Loans payable	**145**	**269**	**(145)**	**(269)**
Accounts payable and accrued expenses	**725**	**1,292**	**(725)**	**(1,292)**
Long-term debt (including current maturities)	**5,892**	**5,364**	**(5,892)**	**(5,364)**
Lease liabilities (including current portion)	**1,029**	**797**	**(1,029)**	**(797)**
Other noncurrent liabilities	**470**	**386**	**(470)**	**(386)**
	8,261	**8,108**	**(8,261)**	**(8,108)**
	P4,312	**P3,979**	**(P4,312)**	**(P3,979)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2020	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P4,619)	(P3,666)	P4,619	P3,666
Trade and other receivables	(113)	(407)	113	407
Prepaid expenses and other current assets	(5)	(14)	5	14
Noncurrent receivables	-	(4)	-	4
	(4,737)	(4,091)	4,737	4,091
Loans payable	145	248	(145)	(248)
Accounts payable and accrued expenses	1,004	1,481	(1,004)	(1,481)
Long-term debt (including current maturities)	5,902	4,908	(5,902)	(4,908)
Lease liabilities (including current portion)	1,095	804	(1,095)	(804)
Other noncurrent liabilities	455	371	(455)	(371)
	8,601	7,812	(8,601)	(7,812)
	P3,864	P3,721	(P3,864)	(P3,721)

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

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

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

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

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

March 31, 2021	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	P337,073	P337,073	P337,073	P -	P -	P -
Trade and other receivables - net	115,706	115,706	115,706	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	862	862	818	44	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	282	282	282	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,934	5,936	82	46	-	5,808
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	270	112	96	62	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	25,464	25,482	-	311	24,647	524
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	8,949	8,949	4,081	3,525	-	1,343
Financial Liabilities						
Loans payable	146,768	147,084	147,084	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	161,518	161,830	161,830	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,648	2,648	1,052	133	1,463	-
Long-term debt (including current maturities)	774,859	912,970	120,349	185,235	423,665	183,721
Lease liabilities (including current portion)	116,197	138,082	32,229	25,156	46,355	34,342
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities)	28,556	28,562	-	16,619	10,996	947

December 31, 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	P347,962	P347,962	P347,962	P -	P -	P -
Trade and other receivables - net	120,965	120,965	120,965	-	-	-
Derivative assets (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts)	635	635	596	20	19	-
Financial assets at FVPL (included under “Prepaid expenses and other current assets” account)	275	275	275	-	-	-
Financial assets at FVOCI (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts)	5,915	5,918	82	46	1	5,789
Financial assets at amortized cost (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts)	255	270	112	96	62	-
Noncurrent receivables and deposits - net (included under “Other noncurrent assets - net” account)	25,058	25,082	-	333	24,237	512
Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts)	7,980	7,980	3,111	3,577	-	1,292
Financial Liabilities						
Loans payable	149,475	149,779	149,779	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	161,074	161,383	161,383	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” and “Other noncurrent liabilities” accounts)	3,898	3,898	1,731	201	1,966	-
Long-term debt (including current maturities)	766,762	909,824	109,456	129,043	489,632	181,693
Lease liabilities (including current portion)	122,187	145,425	31,994	27,237	49,652	36,542
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	28,291	28,309	-	16,787	10,582	940

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.

	March 31, 2021	December 31, 2020
Cash and cash equivalents (excluding cash on hand)	**P336,208**	P346,178
Trade and other receivables - net	**115,706**	120,965
Derivative assets	**862**	635
Investment in debt instruments at FVOCI	**126**	126
Investment in debt instruments at amortized cost	**255**	255
Noncurrent receivables and deposits - net	**25,464**	25,058
Restricted cash	**8,949**	7,980
	P487,570	P501,197

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.

	March 31, 2021					
	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)	**P336,208**	**P -**	**P -**	**P -**	**P -**	**P336,208**
Trade and other receivables	**115,706**	**-**	**13,688**	**-**	**-**	**129,394**
Derivative assets	**-**	**-**	**-**	**830**	**32**	**862**
Investment in debt instruments at FVOCI	**-**	**-**	**-**	**-**	**126**	**126**
Investment in debt instruments at amortized cost	**105**	**150**	**-**	**-**	**-**	**255**
Noncurrent receivables and deposits	**-**	**25,464**	**600**	**-**	**-**	**26,064**
Restricted cash	**4,081**	**4,868**	**-**	**-**	**-**	**8,949**

	December 31, 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)	P346,178	P -	P -	P -	P -	P346,178
Trade and other receivables	120,965	-	13,768	-	-	134,733
Derivative assets	-	-	-	604	31	635
Investment in debt instruments at FVOCI	-	-	-	-	126	126
Investment in debt instruments at amortized cost	105	150	-	-	-	255
Noncurrent receivables and deposits	-	25,058	606	-	-	25,664
Restricted cash	3,111	4,869	-	-	-	7,980

The aging of receivables is as follows:

March 31, 2021	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P46,348**	**P24,912**	**P9,730**	**P80,990**
Past due:				
1 - 30 days	**4,711**	**447**	**24**	**5,182**
31 - 60 days	**1,761**	**707**	**10**	**2,478**
61 - 90 days	**1,119**	**500**	**142**	**1,761**
Over 90 days	**15,025**	**22,938**	**1,020**	**38,983**
	P68,964	**P49,504**	**P10,926**	**P129,394**

December 31, 2020	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P45,989	P23,486	P9,631	P79,106
Past due:				
1 - 30 days	8,894	3,608	276	12,778
31 - 60 days	2,736	316	60	3,112
61 - 90 days	1,363	335	11	1,709
Over 90 days	15,718	21,230	1,080	38,028
	P74,700	P48,975	P11,058	P134,733

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 at FVOCI, investment in debt instruments at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

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

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

<u>Financial and Other Risks Relating to Livestock</u>
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. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

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

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

The Group’s derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

The Group 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 transactions 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.

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:

	March 31, 2021		December 31, 2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P337,073**	**P337,073**	P347,962	P347,962
Trade and other receivables - net	**115,706**	**115,706**	120,965	120,965
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**862**	**862**	635	635
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**282**	**282**	275	275
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,934**	**5,934**	5,915	5,915
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**255**	**255**	255	255
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**25,464**	**25,464**	25,058	25,058
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**8,949**	**8,949**	7,980	7,980
Financial Liabilities				
Loans payable	**146,768**	**146,768**	149,475	149,475
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**161,518**	**161,518**	161,074	161,074
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**2,648**	**2,648**	3,898	3,898
Long-term debt (including current maturities)	**774,859**	**830,516**	766,762	843,008
Lease liabilities (including current portion)	**116,197**	**116,197**	122,187	122,187
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	**28,556**	**28,556**	28,291	28,291

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

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

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

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1% to 4% and 0.9% to 3% as at March 31, 2021 and December 31, 2020, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 2% and 0.1% to 0.9% as at March 31, 2021 and December 31, 2020, 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:

March 31, 2021	Maturity 1 Year or Less	 > 1 Year - 2 Years	 > 2 Years - 5 Years	 Total
Foreign currency risk:				
Call spread swaps:				
Notional amount	**US$40**	**US$100**	**US$ -**	**US$140**
Average strike rate	**P51.96 to P54.35**	**P51.96 to P56.15**	**-**	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	**US$20**	**US$30**	**US$280**	**US$330**
Average strike rate	**P47.00 to P57.00**	**P47.00 to P56.83**	**P47.00 to P56.50**	
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**3.60% to 5.80%**	
Interest rate risk:				
Interest rate collar:				
Notional amount	**US$15**	**US$30**	**US$45**	**US$90**
Interest rate	**0.44% to 1.99%**	**0.44% to 1.99%**	**0.44% to 1.99%**	

December 31, 2020	Maturity 1 Year or Less	 > 1 Year - 2 Years	 > 2 Years - 5 Years	 Total
Foreign currency risk:				
Call spread swaps:				
Notional amount	US$90	US$50	US$60	US$200
Average strike rate	P52.41 to P56.15	P52.41 to P55.02	P52.95 to P56.15	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US$20	US$30	US$280	US$330
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	3.60% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US$15	US$30	US$45	US$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

March 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	**P47**	**P -**	**(P47)**
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	**220**	**(1,205)**	**887**
Interest rate risk:			
US dollar-denominated borrowings	**21**	**(16)**	**-**

December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P85	P -	(P87)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,968	(1,251)	657
Interest rate risk:			
US dollar-denominated borrowings	28	(20)	-

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:

March 31, 2021	**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$140**	**P40**	**P59**	**Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(P47)**	**P22**	**(P7)**	**P29**	**Interest expense and other financing charges, and Other income (charges) - net**
Foreign currency and interest rate risks:									
Cross currency swap	**330**	**-**	**1,769**	**Accounts payable and accrued expenses and Other noncurrent liabilities**	**(220)**	**192**	**(36)**	**48**	**Interest expense and other financing charges, and Other income (charges) - net**
Interest rate risk:									
Interest rate collar	**90**	**-**	**21**	**Accounts payable and accrued expenses and Other noncurrent liabilities**	**(21)**	**(4)**	**-**	**4**	**Interest expense and other financing charges**

December 31, 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	P30	P96	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P85)	(P80)	P27	P214	Interest expense and other financing charges and Other income - net
Foreign currency and interest rate risks:									
Cross currency swap	330	-	2,343	Accounts payable and accrued expenses and Other noncurrent liabilities	(1,968)	24	1,257	200	Interest expense and other financing charges and Other income - net
Interest rate risk:									
Interest rate collar	90	-	28	Accounts payable and accrued expenses and Other noncurrent liabilities	(28)	(8)	-	9	Interest expense and other financing charges

No ineffectiveness was recognized in the 2021 and 2020 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.

	March 31, 2021		December 31, 2020	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	**(P1,271)**	**P570**	(P1,004)	P321
Changes in fair value:				
Foreign currency risk	**7**	**22**	(28)	(80)
Foreign currency risk and interest rate risks	**204**	**192**	(1,603)	24
Interest rate risk	**7**	**(4)**	(35)	(8)
Amount reclassified to profit or loss	**(43)**	**81**	1,284	423
Tax effect	**(125)**	**(21)**	115	(110)
Ending balance	**(P1,221)**	**P840**	(P1,271)	P570

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

As at March 31, 2021 and December 31, 2020, the Group has no outstanding interest rate swap.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$434 and US$440 as at March 31, 2021 and December 31, 2020, respectively, and with various maturities in 2021. The positive (negative) fair value of these currency forwards amounted to P56 and (P58) as at March 31, 2021 and December 31, 2020, respectively.

Currency Options

The Group has outstanding currency options with an aggregate notional amount of US$700 and US$925 as at March 31, 2021 and December 31, 2020, respectively, and with various maturities in 2021. The net negative fair value of these currency options amounted to P285 and P523 as at March 31, 2021 and December 31, 2020, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its fuel oil requirements, with various maturities in 2021. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index.

The notional quantity of fuel oil were 32.1 million barrels and 32.8 million barrels as at March 31, 2021 and December 31, 2020, respectively. The net positive (negative) fair value of these swaps amounted to P259 and (P724) as at March 31, 2021 and December 31, 2020, respectively.

As at March 31, 2021 and December 31, 2020, the Group has no outstanding commodity swaps on the purchase of coal and aluminum.

Commodity Options
As at March 31, 2021 and December 31, 2020, 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$238 and US$173 as at March 31, 2021 and December 31, 2020, 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 (negative) fair value of these embedded currency forwards amounted to (P7) and P479 as at March 31, 2021 and December 31, 2020, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P3,896), P2,150 and (P5,007) for the periods ended March 31, 2021 and 2020, and December 31, 2020, respectively (Note 4).

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

	March 31, 2021	December 31, 2020
Balance at beginning of year	**(P3,263)**	(P1,964)
Net change in fair value of derivatives:		
Designated as accounting hedge	**428**	(1,730)
Not designated as accounting hedge	**(3,878)**	(4,841)
Acquisition of a subsidiary	**-**	260
	(6,713)	(8,275)
Less fair value of settled instruments	**(4,927)**	(5,012)
Balance at end of period	**(P1,786)**	(P3,263)

Fair Value Measurements
The Group measures 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:

	March 31, 2021			December 31, 2020		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P862**	**P862**	P -	P635	P635
Financial assets at FVPL	**-**	**282**	**282**	-	275	275
Financial assets at FVOCI	**446**	**5,488**	**5,934**	427	5,488	5,915
Financial Liabilities						
Derivative liabilities	**-**	**2,648**	**2,648**	-	3,898	3,898

The Group has no financial instruments valued based on Level 3 as at March 31, 2021 and December 31, 2020. For the period ended March 31, 2021 and for the year ended December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

11. Subsequent Event

Issuance of US$550 SPCS by Petron Corporation (Petron)

On April 19, 2021, Petron issued US$550 SPCS at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds will be applied for the repayment of indebtedness and for general corporate purposes.

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 43 (a) of the 2020 Audited Consolidated Financial Statements, that remain outstanding as at March 31, 2021. 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 March 31, 2021.

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 March 31, 2021. 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. The effect of COVID-19 in the performance of the Group for the first quarter of 2021 is discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

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 March 31, 2021 and December 31, 2020 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2021 and 2020 for operating efficiency ratios.

	March 2021	December 2020
Liquidity:		
Current Ratio	**1.44**	1.52
Quick Ratio	**1.01**	1.06
Solvency:		
Debt to Equity Ratio	**1.97**	1.95
Asset to Equity Ratio	**2.97**	2.95
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.57%**	(0.14%)
Interest Rate Coverage Ratio	**2.61**	1.78
Return on Assets	**1.95%**	1.19%

	Period Ended March 31	
	2021	2020
Operating Efficiency:		
Volume Decline	**(7%)**	(9%)
Revenue Decline	**(6%)**	(15%)
Operating Margin	**16%**	5%

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	$\frac{\text{Current Assets - Inventories - Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilities}}$
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	$\left(\dfrac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) -1$
Revenue Growth	$\left(\dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) -1$
Operating Margin	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

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 March 31, 2021 (with comparative figures as at December 31, 2020 and for the period ended March 31, 2020). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2021, 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. 2021 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LONG-TERM DEBT

a) SMC Global Power Holdings Corp. (SMC Global)

On March 9, 2021, SMC Global executed a five-year term loan facility agreement for the amount of US$200 million used to refinance its maturing US$200 million loan obligation. Drawdown was completed on March 12, 2021. The loan is subject to a floating interest rate and will mature in March 2026.

b) SMC Tollways Corporation, formerly Atlantic Aurum Investments Philippines Corporation (SMC Tollways)

On March 16, 2021, SMC Tollways drew a total of P9,500 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. The proceeds of the loan will be used to refinance existing debt obligations, to invest and/or advance for infrastructure projects, for general corporate requirements and to finance transaction-related fees, taxes and expenses. The loan is subject to fixed interest rate and payable in 40 quarterly installments up to December 14, 2029. Total amount drawn from the facility amounted to P37,800 million as at March 31, 2021.

REDEMPTION OF EQUITY AND CAPITAL SECURITIES

a) Redemption of Series "2-G" Preferred Shares (SMC2G) by San Miguel Corporation (SMC)

On March 30, 2021, SMC redeemed all the outstanding SMC2G Preferred Shares totaling 66,666,600 shares. The redemption price was the issue price of P75.00 per share, plus any accumulated unpaid cash dividends. The SCM2G Preferred Shares were issued on March 30, 2016.

The SMC2G Preferred Shares were redeemed using the proceeds of the US$1,950 million drawdown in March 2020 on the US$2,000 million facility agreement.

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

b) Redemption of Undated Subordinated Capital Securities (USCS) by SMC Global

On February 26, 2021, SMC Global completed the redemption of its US$300 million USCS issued on August 26, 2015 pursuant to the terms and conditions of the securities. The redemption price includes the principal amount and any accrued but unpaid distributions up to (but excluding) February 26, 2021.

The US$300 million USCS were redeemed using in part the proceeds of the US$350 million Senior Perpetual Capital Securities (SPCS) issued on December 15, 2020.

REDEMPTION OF BONDS

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

On March 31, 2021, SMB remitted P12,462 million to the designated payment account maintained by the Philippine Depository and Trust Corporation for the redemption of the fixed-rate Peso-denominated Series G Bonds which matured on April 5, 2021. Upon remittance, the obligation of SMB to pay the Series G Bonds is discharged under the relevant agreements for the bonds.

The payment came from the availment of the P12,000 million term loans on March 30, 2021 from four banks. The loans are subject to fixed interest rates, where P10,000 million loans are due on March 30, 2026 and P2,000 million loans are due on March 30, 2028.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the three-month period ended March 31, 2021, the Group paid a total of P3,775 million of maturing obligations funded by cash generated from operations.

Petron Corporation (Petron), Energy, Infrastructure, Packaging and SMC paid a total of P1,411 million, P869 million, P826 million, P629 million and P40 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

<u>2021 vs. 2020</u>

The Group’s consolidated sales for the first quarter of 2021 ended at P201,157 million, 6% lower than the previous year. This, however, was an improvement from the 15% decline recorded in the first quarter of 2020 and the 29% decline for the full year last year. Petron, Energy and Infrastructure businesses continue to be weighed down by lower demand due to restrained mobility, travel and commercial/social events. This was offset by the Food and Beverage business’ continuous volume recoveries combined with better selling prices.

Lower cost of sales by 18% to P149,292 million was mainly due to the decline in sales volume and cost per liter of Petron, partly offset by the increase in sales volume of the Spirits division under the Food and Beverage business.

The decrease in selling and administrative expenses by 5% to P20,050 million was mainly due to the lower advertising and promotions and freight, trucking and handling expenses, primarily from Petron and the Beer and Non-Alcoholic Beverages (NAB) and Food divisions under the Food and Beverage business.

With sustained improvements from the Food and Beverage business and the turnaround of Petron, coupled with lower raw material costs and effective cost saving efforts across the Group, consolidated operating income significantly increased to P31,815 million for the first quarter of 2021 from P11,320 million in the same period last year.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) reached P40,696 million, 54% higher than last year's P26,375 million, backed by significant improvements by most of the businesses.

The decrease in interest expense and other financing charges was mainly due to the lower average interest rate and borrowing level of Petron.

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 (losses) of associates and joint ventures was mainly due to the share in net income of Angat Hydropower Corporation (Angat Hydro) and Bank of Commerce in March 2021 versus net loss in the same period last year.

The loss on sale of property and equipment in 2020 pertains mainly to the retirement of fixed assets by San Miguel Yamamura Packaging Corporation (SMYPC) Manila Plastics Plant due to the fire incident in Pandacan, Manila in February 2020.

The other charges - net in 2021 was mainly due to the commodity hedging loss by Petron, offset by San Miguel Energy Corporation's recognition of income from reduction of Power Sector Assets and Liabilities Management Corporation (PSALM) fixed fee charges for the outages of Sual Power Plant's Units 1 and 2 in the first quarter of 2021.

The decrease in income tax expense was mainly due to the impact of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law primarily on the deferred tax liabilities of the Energy business' entities under the Independent Power Producer Administration (IPPA) Agreements. The decrease was offset by the income tax expense of Petron in March 2021 compared to income tax benefit in the same period last year.

Consolidated net income ended at P16,377 million, more than 26 times higher than the previous year, reflecting the strong recoveries from Petron and the Food division, together with consistent growth from the Spirits division and the Energy business.

The share of non-controlling interests on the Group's net income increased in March 2021 mainly due to the: (a) net income of Petron in March 2021 compared to net loss in March 2020, (b) higher amount of distribution on SMC Global's SPCS, and (c) higher net income of the Food and Beverage business.

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

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated sales for the first quarter of 2021 grew 11% to P76,362 million. This was attributable to sustained all-time high volumes from the Spirits division, continuous volume improvements of the Food division and generally better selling prices from the Food and Beer and NAB divisions.

Consolidated operating income and net income stood at P12,569 million and P9,679 million, notable increases of 45% and 66%, respectively.

a. Beer and NAB Division

SMB recorded consolidated sales of P28,846 million for the first quarter, a 2% improvement from last year. Consolidated volumes, which continue to be affected by various quarantine restrictions and liquor bans in the domestic operations, ended at 51.5 million cases, down by 11%. Notwithstanding, operating income grew by 25% to P6,751 million on the back of effective cost management efforts. Net income increased by 45% from the same period last year to P5,458 million.

Domestic Operations
Domestic operations' sales ended 2% higher than last year at P26,294 million, buoyed by the price increase implemented in March 2020. Volumes in the first quarter still ended lower by 13% at 46.4 million which continues to be weighed down by the liquor bans in selected regions and key cities and the closure of most on-premise outlets.

Operating income ended at P6,413 million, up by 25% from last year, resulting from continued cost management efforts.

SMB continues to focus its efforts on strengthening further its company-initiated consumption-generating programs and direct-to-consumer initiatives to help improve sales. Among these are the digital ads such as the new *"Beer Call Muna Tayo"* and *"#Tara Beer Tayo"* for Pale Pilsen, thematic visibility campaigns, brand awareness initiatives posted on Facebook and SMB PH official Viber and other consumer promos.

International Operations
International operations posted higher volumes, up 4% from the previous year, as Indonesia, Hong Kong, South China, Vietnam and Exports markets continue to deliver better performance from last year.

b. Spirits Division

Ginebra San Miguel Inc.'s (GSMI) achieved a net income of P1,042 million for the first quarter, up 120% year-on-year, the highest earned in a single quarter by the division. Consolidated sales and operating income stood at P11,338 million and P1,290 million, an increase of 52% and 88% versus last year, respectively. Volumes was 29% higher compared to last year's levels - similarly an all-time quarter high, which was driven by strong consumption, boosted by Ginebra San Miguel's new thematic campaign *"Bagong Tapang"*, Vino Kulafu's re-airing of *"Lakas sa Magandang Bukas"*, combined with sustained efforts on distribution expansion.

c. Food Division

The Food division sustained its good momentum since the last quarter of 2020, posting consolidated sales of P36,180 million in the first quarter of 2021, 9% higher compared to the previous year, driven by higher volumes and generally better selling prices across all its business segments.

Consolidated operating income reached P4,533 million, up 75% from last year, lifted by continuous cost reduction efforts and optimization of the use of company owned facilities.

The Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, sales grew 11% versus last year mainly driven by volume and favorable selling prices brought by continuous short supply of pork nationwide. Volumes in supermarkets and *lechon manok* outlets continue to improve which has already gone back to normal operations, while sales to food service accounts continue to struggle due to limited operations. The community resellers also continue to grow which has now reached more than 14,500 as at end of March around the country, contributing more than 1/3 of total volumes.

Animal Nutrition and Health segment sustained its growth momentum as revenues grew by 13%, driven by continuing strong demand for commercial feeds consisting of our free-range fowl, aquatic, duck, and layer feeds. Vetmed and Petfood volumes likewise posted growth during the period. This was partly offset by lower demand from hogs and broiler feeds due to African Swine Fever and shortage of day-old broilers, respectively.

Meanwhile, revenues of the Prepared and Packaged Food segment grew by 6% from last year as sales from refrigerated meats - TJ hotdog, canned products (Spam, Star and Dari margarine), Cheese and Magnolia pancake mixes continue to grow.

The newly launched seafood line, plant-based products and ready-to-eat lines have also been gaining interest from the consumers which allowed them choices of different food variety and preferences.

Revenues of the Flour segment grew 5% mainly driven by new accounts and sustained double digit growth since December 2020 from the recoveries of our existing dealers which resumed operations.

2. PACKAGING

The Packaging business' consolidated sales for the first quarter amounted to P7,354 million, down 13% from last year, mainly due to lower demand from key beverage and food customers, with Export sales constrained by tight shipments.

As a result, operating income amounted to P393 million, 31% lower than the previous year.

3. ENERGY

SMC Global reported consolidated sales of P27,366 million for the first quarter of 2021, 3% lower versus the previous year, as off-take volumes of 6,344 Gigawatt Hours (Gwh) declined by 5%. This was mainly due to continuing quarantine restrictions and lower spot sales which were mitigated by higher average realization prices.

Operating income year-on-year grew by 8% to P8,423 million brought by a combination of lower fuel costs and operating expenses. Net income stood at P7,777 million, 141% higher from the previous year.

4. FUEL AND OIL

Petron bolstered its rebound with a reported net income of P1,730 million for the first quarter of 2021, a significant reversal from the net loss of P4,877 million in the same period last year.

While sales volumes continue to improve, it still reflected the slowdown in demand due to Coronavirus Disease 2019 (COVID-19) pandemic, and ended the quarter with 19.4 million barrels, 21% lower than the 24.7 million barrels sold in the same period in 2020. Consolidated sales settled at P83,307 million, down 20% from P104,623 million a year ago.

Operating income reached P3,661 million from last year's operating loss of P4,409 million. This was mainly due to an inventory gain this quarter, in contrast with an inventory loss in the same period last year, resulting from recent improvements in international oil prices.

Petron has built 14 new service stations in the first quarter and plans to build more for the rest of the year. The Bataan Refinery has also started to transition into AFAB (Authority of the Freeport Area of Bataan) and begun to avail of fiscal incentives from operating in a freeport zone.

5. INFRASTRUCTURE

The Infrastructure business' sales for the first quarter of 2021 stood at P4,330 million, down 7% versus same period last year. Average daily traffic has been improving since December 2020 despite prevailing travel restrictions. South Luzon Expressway (SLEX) and Star Tollway, in particular, registered higher average daily traffic volumes compared to the first quarter of last year.

Operating income amounted to P1,182 million, a decline of 33% year-on-year, resulting from higher operating expenses.

While the Infrastructure business is efficiently managing the operating toll roads and monitoring the recovery of traffic flow, construction works of ongoing projects continue. On April 11, 2021, the Alabang South Skyway Extension opened the Northbound section, and the Southbound section is nearing completion. The Skyway Stage 3 has also received the Toll Regulatory Board approval of the provisional toll rates which has already been published and just waiting for the Toll Operating Permit for partial operation and Notice to Start Collection. Construction of Metro Rail Transit 7 is also progressing well.

2020 vs. 2019

Consolidated sales for the first quarter of 2020 ended at P214,060 million from P250,920 million of the same period in 2019 while consolidated operating income was at P11,320 million from P30,692 million. As expected, the impact on consolidated operating income was significant due to the volumes lost in March 2020, the inventory loss incurred by Petron, the increased alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the pandemic especially costs relating to all employees and direct third party providers whose salaries and allowances were paid in full to ensure their financial well-being and that of their families while they stay safe at home.

Consolidated EBITDA remained healthy at P26,375 million lower than 2019's P40,436 million even with the EBITDA of the Food division under the Food and Beverage business growing more than double compared to the same period in 2019.

Lower cost of sales by 9% to P181,685 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and the Food and Beverage business, and (b) Energy business' lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant, lower average cost of coal prices for Sual and Masinloc Power Plants as coal indices continue to decline, and lower average cost of spot purchases.

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

The decrease in equity in net earnings (losses) of associates and joint ventures was mainly due to the share in net losses of Angat Hydro in 2020 versus net income in 2019, offset by share in net income of Manila North Harbour Port, Inc. in 2020.

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

Other income - net in 2020 consists mainly of the: (a) gain on derivatives resulting from currency and commodity hedging of Petron and (b) 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, partly offset by SMYPC Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila.

The lower income tax expense was primarily due to the: (a) tax benefit of Petron from loss before tax in 2020 versus tax expense on income before tax in 2019 and (b) lower taxable income of the Beer and NAB and Spirits divisions, partly offset by the (c) higher provision for income tax recognized by the Food division.

Consolidated net income amounted to P606 million, significantly lower than 2019.

Share of non-controlling interests on the Group's net income decreased in 2020 mainly due to net loss of Petron in 2020 versus net income in 2019 and lower net income of the Beer and NAB division.

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

1. FOOD AND BEVERAGE

SMFB's consolidated sales for the first three months of 2020 amounted to P69,018 million, 9% lower than the same period in 2019 which was mainly brought about by the slowdown in the Beer and Spirits divisions sales during the Enhanced Community Quarantine (ECQ) period, heightened by the liquor ban implemented by some local government units (LGUs) in Metro Manila and key cities in Luzon. This was partly offset by higher sales from the Food division, particularly from its Prepared and Packaged Food segment.

Coupled with the increase in excise taxes on Beer and Spirits divisions at the beginning of 2020, consolidated operating income declined by 20% to P8,643 million. Consolidated net income, likewise, dropped by 21% to P5,826 million.

a. Beer and NAB Division

SMB posted consolidated sales of P28,404 million in 2020, 18% lower versus 2019, largely on the back of lower volumes at 58.3 million cases for the first quarter. Operating income and net income both declined by 44% versus 2019 to P5,383 million and P3,770 million, respectively.

Domestic Operations
Domestic operations posted sales of P25,752 million in 2020, 18% lower versus 2019. Beer volumes were up during the first two months in 2020 but the ECQ impacted on sales which forced closure of all on-premise outlets, limited transport activities and banning of selling of liquor products by LGUs in Metro Manila and key cities in Luzon. This resulted to volumes dropping by 24% to 53.2 million cases for the first quarter.

International Operations
Similarly, SMB's international operations managed countries were not spared by the COVID-19 pandemic with governments implementing their respective containment measures resulting to decline in consumption and shutdown of some production operations.

b. Spirits Division

GSMI had a good start in 2020 up until February recording double digit volume growth from the same period in 2019. The ECQ and liquor bans in March, however, affected sales volume in the first quarter, which was 14% less than 2019. The strong performance in the first two months helped cushion the decline in sales volume in March 2020 resulting in first quarter sales of P7,452 million and operating income of P686 million, 10% and 30% lower than 2019, respectively. Net income amounted to P474 million, 23% lower versus the same period in 2019.

c. Food Division

The Food division generated consolidated sales of P33,161 million for the first quarter of 2020, 2% higher than the same period in 2019, driven by the strong performance of its refrigerated meats, grocery products, dairy and spreads segments. There was a significant spike in sales in most of the food products as consumers stocked up on essential supplies leading up to and during the ECQ period. In particular, sales of the Prepared and Packaged Food segment posted double digit growth as consumers purchased essential items in the processed meats and dairy and cheese segments.

The Protein segment, composed of poultry and fresh meats, saw revenues grow by 3% compared to the same period in 2019 brought about by improvement in average selling prices of chicken year-on-year as the poultry industry recovered from the widespread glut. The growth was partly offset by the decline in requirements as the number of retail outlets was reduced and most food service outlets were closed during the ECQ period.

The Animal Nutrition and Health segment revenues declined by 14% primarily due to the impact of the African Swine Fever outbreak and slowdown in demand for broiler feeds.

The Prepared and Packaged Food segment recorded the highest revenue growth at 16% mainly driven by strong demand from our refrigerated and canned meat products, as well as for butter, margarine and cheese, and coffee products.

The Flour segment revenues posted a 2% growth despite the decline in sales during the ECQ period with a number of our institutional customers, which include bakeshops, fast food, restaurant chains, and dealers, had to either stop or limit their operations.

The Food division ended the quarter with P2,585 million in operating income, more than 8 times higher than the same period in 2019, with the recovery of poultry prices and more stable raw material costs.

As a result, net income amounted to P1,636 million in 2020, significantly higher than 2019.

2. PACKAGING

The Packaging business' performance for the first quarter of 2020 also reflected the effect of the ECQ. Sales amounted to P8,496 million, 4% lower than 2019. Decline was mainly due to reduced orders from the Food and Beverage sectors, while the health and pharmaceutical customers brought in steady volumes.

Operating income amounted to P570 million in 2020, 31% lower than 2019.

3. ENERGY

SMC Global's consolidated sales for the first three months of 2020 amounted to P28,298 million, 18% lower versus 2019 with off-take volumes at 6,644 GWh also declining by 3% compared to the same period in 2019. This was primarily due to the deferral of the commencement to supply Manila Electric Company (Meralco) with the 290 MW mid-merit power supply agreement which was only issued the provisional approval of the Energy Regulatory Commission (ERC) on March 16, 2020 and the deferral of the 260 MW extended contract with Masinloc which remains pending ERC approval to-date. Moreover, the new Meralco baseload power supply agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts which expired on December 25, 2019.

Operating income and net income amounted to P7,823 million and P3,221 million, 21% and 10% lower than same period in 2019, respectively.

4. FUEL AND OIL

Petron continues to be faced with challenges during the first quarter of 2020. The ECQ restricted mobility in and out of the country curtailing economic activities affecting fuel demand. Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand drop caused by the COVID-19 pandemic. The price of benchmark Dubai crude dropped by 66% to $23 per barrel by end of March 2020 from $67 per barrel end of December 2019, which resulted in successive rollbacks in pump prices. As a result, Petron's consolidated sales amounted to P104,623 million, down by 16% versus 2019 mainly on account of the decline in average selling price of fuel and lower volumes from both the Philippines and Malaysia ending at 24.7 million barrels, down 6%, from 26.3 million barrels recorded in 2019.

Petron incurred an operating loss of P4,409 million and net loss of P4,877 million in 2020, compared to an operating income of P4,865 million and net income of P1,303 million in 2019. This was due to significant inventory losses in the first quarter of 2020 resulting from the collapse of crude oil price brought by demand contraction in both the local and international markets.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads for the first quarter of 2020 recorded a 15% volume decline as the ECQ restricted travel movements throughout Luzon where our toll roads are located. The company also chose to provide free toll fees to all frontliners passing through the operating toll roads. Thus, consolidated sales of P4,661 million was down 27% and operating income stood at P1,772 million.

III. FINANCIAL POSITION

2021 vs. 2020

Consolidated total assets as at March 31, 2021 amounted to about P2,009,368 million, P16,176 million lower than December 31, 2020. The decrease was primarily due to the lower balance of cash and cash equivalents, inventories and deferred tax assets, offset by the increase in investment property.

The decrease in inventories by P8,131 million was mainly due to the lower volume of crude and finished products of Petron.

The increase in investment property by P4,694 million was mainly due to the acquisition of various properties by San Miguel Properties, Inc.

The decrease in biological assets - net of current portion by P239 million was mainly due to the decrease in poultry inventory caused by the amortization of farms already in the laying stage and lower unit cost for newly loaded flocks.

The decrease in deferred tax assets by P2,774 million was mainly due to the impact of CREATE Law on the tax rates on net operating loss carry-over, allowance for impairment of receivables and inventory losses and unrealized gross profit and foreign exchange losses.

The decrease in dividends payable by P1,542 million was mainly due to the payment by SMC on January 8, 2021 of the dividends declared to preferred shareholders in December 2020.

The increase in current maturities of long-term debt, net of debt issue costs, by 12,032 million was mainly due to the reclassification by SMC of the US$516 million floating-interest loan to current liabilities, which was redeemed on April 26, 2021, offset by the redemption by SMB of its Series G Bonds.

The decrease in lease liabilities, net of current portion, by P6,384 million was primarily due to the payments made to PSALM by the Energy business' entities under IPPA Agreements.

The decrease in equity reserves by P1,122 million was mainly due to the: (a) redemption of the US$300 million USCS by SMC Global in February 2021, (b) loss on translation of foreign operations for the period, and (c) impact of the CREATE Law on the Group's deferred tax on reserve for retirement plan.

The increase in appropriated retained earnings by P4,047 million was mainly due to the appropriation for the period by MTD Manila Expressways Inc. to fund the construction of the SLEX Toll Road 4 project, net of Petron's reversal of appropriation for capital projects that were already completed.

2020 vs. 2019

Consolidated total assets as at March 31, 2020 amounted to about P2,023,324 million, P92,147 million or 5% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents from the net proceeds of the issuance of US$1,950 million corporate notes by SMC.

The decrease in inventories by P17,942 million was attributable mainly to Petron Philippines and Petron Malaysia's lower prices of crude and finished products, partly offset by the increase in volume of crude by Petron Philippines and finished products of Petron Malaysia.

The increase in prepaid expenses and other current assets by P3,943 million was primarily due to the: (a) higher derivative assets, prepaid insurance from unamortized portion of renewed policies, input tax on importation of materials, unused creditable withholding taxes and prepaid Taxes of Petron, (b) recognition of loss reserves recoverable from reinsurers by San Miguel Insurance Company, Ltd. related to losses due to various calamities, and (c) higher restricted cash balances by the Energy business.

The decrease in accounts payable and accrued expenses by P27,956 million was mainly due to the lower liabilities for crude and petroleum products due to drop in prices and fewer outstanding shipments as at end of first quarter 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 P2,976 million was mainly due to the higher excise tax payable of Petron Philippines and sales duty tax payable of Petron Malaysia.

The increase in dividends payable by P244 million primarily represents the dividends declared by Petron on March 10, 2020 to its non-controlling shareholders paid on April 8, 2020.

The increase in total long-term debt, net of debt issue costs, by P118,866 million was mainly due to the: (a) issuance of US$1,950 million corporate notes by SMC and (b) issuance of P15,000 million fixed-rate Peso-denominated bonds by SMFB. The increase was offset by payment of maturing obligations of Petron, Infrastructure and Energy businesses, and foreign exchange translation adjustments on the US Dollar-denominated loans.

The decrease in lease liabilities, net of current portion, by P7,413 million was primarily due to the payments made to PSALM by the Energy business' entities under IPPA Agreements.

The decrease in equity reserves by P1,374 million was mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

The increase in non-controlling interests by P9,382 million pertains mainly to the issuance of US$600 million SPCS by SMC Global, offset by the: (a) redemption of preferred shares by SMFB, (b) share of non-controlling interests on the Group's net income reduced by the cash dividends and distributions declared for the period, and (c) foreign exchange translation adjustments.

Equity

The increase (decrease) in equity is due to:

(In millions)	March 31	
	2021	2020
Net income during the period	**P16,377**	P606
Net addition (reduction) to non-controlling interests and others	**(18,252)**	15,062
Cash dividends and distributions	**(8,347)**	(6,755)
Other comprehensive loss	**(1,085)**	(3,376)
	(P11,307)	P5,537

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	March 31	
	2021	2020
Net cash flows provided by (used in) operating activities	**P39,693**	(P2,266)
Net cash flows used in investing activities	**(17,702)**	(22,058)
Net cash flows provided by (used in) financing activities	**(34,246)**	122,947

Net cash flows provided by (used in) 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)	March 31	
	2021	2020
Additions to property, plant and equipment	**(P13,537)**	(P16,330)
Additions to intangible assets	**(2,189)**	(2,322)
Additions to investment property	**(1,857)**	(377)
Increase in other noncurrent assets and others	**(687)**	(4,900)
Additions to investments and advances and investment in debt instruments	**(348)**	(287)
Interest received	**789**	2,022
Proceeds from sale of property and equipment	**127**	133
Dividends received	**-**	3

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

(In millions)	March 31	
	2021	2020
Redemption of capital securities and preferred shares of subsidiaries	**(P19,582)**	(P15,000)
Payment of cash dividends and distributions	**(9,888)**	(6,512)
Payment of lease liabilities	**(6,708)**	(6,349)
Proceeds from (payment of) short-term loans - net	**(2,658)**	65
Proceeds from long-term debt - net	**4,757**	120,711
Net proceeds from issuance of capital securities of a subsidiary	**-**	30,170

The effect of exchange rate changes on cash and cash equivalents amounted to P1,366 million and (P852 million) for the periods ended March 31, 2021 and 2020, 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.

	March 2021	December 2020
Liquidity:		
Current Ratio	**1.44**	1.52
Quick Ratio	**1.01**	1.06
Solvency:		
Debt to Equity Ratio	**1.97**	1.95
Asset to Equity Ratio	**2.97**	2.95
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.57%**	(0.14%)
Interest Rate Coverage Ratio	**2.61**	1.78
Return on Assets	**1.95%**	1.19%

	Periods Ended March 31	
	2021	2020
Operating Efficiency:		
Volume Decline	**(7%)**	(9%)
Revenue Decline	**(6%)**	(15%)
Operating Margin	**16%**	5%

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	$\frac{\text{Current Assets - Inventories - Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilities}}$
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	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

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

** Annualized for quarterly reporting*