

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended  
Sep 30, 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 9.30.21 in Millions Php)	1,393,710

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

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

Yes No

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

Yes No

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



TOP FRONTIER  
INVESTMENT HOLDINGS, INC.

## Top Frontier Investment Holdings, Inc. TFHI

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

For the period ended	Sep 30, 2021
Currency (indicate units, if applicable)	Php (in Millions)

#### Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2021	Dec 31, 2020
Current Assets	688,923	669,989
Total Assets	2,104,073	2,025,544
Current Liabilities	505,113	441,303
Total Liabilities	1,393,710	1,338,424
Retained Earnings/(Deficit)	85,333	85,660
Stockholders' Equity	710,363	687,120
Stockholders' Equity - Parent	159,807	159,244
Book Value per Share	379.72	381.69

**Income Statement**

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	240,440	178,332	650,559	531,120
Gross Expense	214,115	152,199	564,005	490,860
Non-Operating Income	1,315	1,286	3,440	4,629
Non-Operating Expense	21,023	5,088	47,016	24,445
Income/(Loss) Before Tax	6,617	22,331	42,978	20,444
Income Tax Expense	4,291	6,816	12,504	8,941
Net Income/(Loss) After Tax	2,326	15,515	30,474	11,503
Net Income Attributable to Parent Equity Holder	-4,539	4,524	-41	-2,416
Earnings/(Loss) Per Share (Basic)	-14.97	12.48	-3.8	-10.98
Earnings/(Loss) Per Share (Diluted)	-14.97	12.48	-3.8	-10.98

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	1.58	-11.68
Earnings/(Loss) Per Share (Diluted)	1.58	-11.68

**Other Relevant Information**

Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 3rd Quarter of 2021. Pursuant to the relevant guidelines of the Securities and Exchange Commission ("SEC"), this SEC Form 17-Q has likewise been filed with the SEC via e-mail on even date.

**Filed on behalf by:**

<b>Name</b>	Irene Cipriano
<b>Designation</b>	Assistant Corporate Secretary

# COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

<b>Virgilio S. Jacinto</b>
Contact Person

<b>(02) 8632-3143</b>
Company Telephone Number

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Month

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Day

<b>SEC Form 17-Q</b>
<b>(3<sup>rd</sup> Quarter of 2021)</b>

FORM TYPE

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Month

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Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 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. **5<sup>th</sup> Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**  
Address of issuer's principal office Postal Code
8. **(02) 8632-3673**  
Issuer's telephone number, including area code
9. **N/A**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding (as of September 30, 2021)
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<b>Common Shares</b>	<b>332,886,167*</b>
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*\*Net of the 157,310,033 common shares held in Treasury*

<b>Total Liabilities</b>	<b>P1,393,710 million</b>
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11. Are any or all of the securities listed on a Stock Exchange?

Yes [ ☒ ] No [ ☐ ]

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

<b>Philippine Stock Exchange</b>	<b>Common Shares</b>
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12. Indicate by check mark whether the registrant:

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

Yes [ ☒ ] No [ ☐ ]

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

Yes [ ☒ ] No [ ☐ ]

## **PART I -- FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2021 (with comparative figures as of December 31, 2020 and for the period ended September 30, 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".

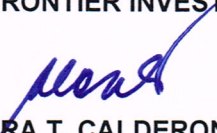
## **PART II -- OTHER INFORMATION**

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 November 15, 2021

Signature and Title   
**BELLA O. NARRA**  
Chief Financial Officer/Authorized Signatory

Date November 15, 2021



TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2021 AND DECEMBER 31, 2020  
(In Millions)

# ANNEX "A"

## ASSETS

	2021 Unaudited	2020 Audited
<b>Current Assets</b>		
Cash and cash equivalents (Notes 10 and 11)	P 321,597	P 347,962
Trade and other receivables - net (Notes 6, 10 and 11)	128,234	120,965
Inventories	130,397	102,828
Current portion of biological assets - net	3,214	3,401
Prepaid expenses and other current assets (Notes 3, 6, 10 and 11)	105,481	94,833
<b>Total Current Assets</b>	<b>688,923</b>	<b>669,989</b>
<b>Noncurrent Assets</b>		
Investments and advances - net (Note 3)	57,246	50,529
Investments in equity and debt instruments (Notes 10 and 11)	6,040	5,985
Property, plant and equipment - net (Note 7)	578,132	543,371
Right-of-use assets - net	187,508	192,104
Investment property - net	70,448	62,370
Biological assets - net of current portion	2,236	2,352
Goodwill	120,452	120,463
Other intangible assets - net	286,127	276,250
Deferred tax assets (Note 3)	17,395	21,262
Other noncurrent assets - net (Notes 6, 10 and 11)	89,566	80,869
<b>Total Noncurrent Assets</b>	<b>1,415,150</b>	<b>1,355,555</b>
	<b>P 2,104,073</b>	<b>P 2,025,544</b>

## LIABILITIES AND EQUITY

	2021 Unaudited	2020 Audited
<b>Current Liabilities</b>		
Loans payable (Notes 6, 10 and 11)	P 182,256	P 149,475
Accounts payable and accrued expenses (Notes 6, 10 and 11)	186,808	164,897
Lease liabilities - current portion (Notes 6, 10 and 11)	26,846	27,622
Income and other taxes payable (Note 3)	20,883	21,031
Dividends payable (Note 9)	2,436	3,681
Current maturities of long-term debt - net of debt issue costs (Notes 6, 10 and 11)	85,884	74,597
<b>Total Current Liabilities</b>	<b>505,113</b>	<b>441,303</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current maturities and debt issue costs (Notes 6, 10 and 11)	697,910	692,165
Lease liabilities - net of current portion (Notes 6, 10 and 11)	78,193	94,565
Deferred tax liabilities (Note 3)	70,312	70,740
Other noncurrent liabilities (Notes 6, 10 and 11)	42,182	39,651
<b>Total Noncurrent Liabilities</b>	<b>888,597</b>	<b>897,121</b>
<b>Equity</b>		
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 3)	4,845	3,955
Retained earnings:		
Appropriated	26,647	21,297
Unappropriated (Note 3)	58,686	64,363
Treasury stock	(76,780)	(76,780)
	159,807	159,244
<b>Non-controlling Interests (Note 3)</b>	<b>550,556</b>	<b>527,876</b>
<b>Total Equity</b>	<b>710,363</b>	<b>687,120</b>
	<b>P 2,104,073</b>	<b>P 2,025,544</b>

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

CERTIFIED CORRECT:

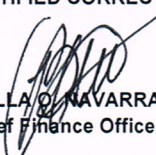
BEILA NAVARRA  
Chief Finance Officer

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2021 AND 2020**  
*(In Millions, Except Per Share Data)*

	2021	2020	For the Quarter Ended	
	Unaudited	Unaudited	2021	2020
			Unaudited	Unaudited
SALES (Note 4)	P 650,559	P 531,120	P 240,440	P 178,332
COST OF SALES	509,515	433,029	196,399	132,830
GROSS PROFIT	141,044	98,091	44,041	45,502
SELLING AND ADMINISTRATIVE EXPENSES	(54,490)	(57,831)	(17,716)	(19,369)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(35,640)	(37,436)	(12,640)	(11,928)
INTEREST INCOME	2,573	5,065	898	1,267
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	720	38	399	89
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	147	(474)	18	(70)
OTHER INCOME (CHARGES) - Net (Note 5)	(11,376)	12,991	(8,383)	6,840
INCOME BEFORE INCOME TAX	42,978	20,444	6,617	22,331
INCOME TAX EXPENSE (Note 3)	12,504	8,941	4,291	6,816
NET INCOME	P 30,474	P 11,503	P 2,326	P 15,515
Attributable to:				
Equity holders of the Parent Company	P (41)	P (2,416)	P (4,539)	P 4,524
Non-controlling interests	30,515	13,919	6,865	10,991
	P 30,474	P 11,503	P 2,326	P 15,515
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 8)	P (3.80)	P (10.98)	P (14.97)	P 12.48

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

CERTIFIED CORRECT:

  
**BELLA O. NAVARRA**  
Chief Finance Officer



**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2021 AND 2020**  
*(In Millions)*

	2021 Unaudited	2020 Unaudited	For the Quarter Ended 2021 Unaudited	2020 Unaudited
<b>NET INCOME</b>	<b>P 30,474</b>	<b>P 11,503</b>	<b>P 2,326</b>	<b>P 15,515</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>				
EQUITY RESERVE FOR RETIREMENT PLAN	(1)	2	(1)	(1)
INCOME TAX EXPENSE (Note 3)	(557)	-	-	-
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	52	38	29	24
INCOME TAX EXPENSE	(7)	(7)	(2)	(2)
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	(28)	(97)	9	(93)
	<u>(541)</u>	<u>(64)</u>	<u>35</u>	<u>(72)</u>
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	3,850	(5,144)	3,930	(1,796)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	1	-	(1)
NET GAIN (LOSS) ON CASH FLOW HEDGES	536	(55)	78	286
INCOME TAX BENEFIT (EXPENSE)	(166)	14	(11)	(88)
	<u>4,220</u>	<u>(5,184)</u>	<u>3,997</u>	<u>(1,599)</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>	<u>3,679</u>	<u>(5,248)</u>	<u>4,032</u>	<u>(1,671)</u>
<b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>	<u><b>P 34,153</b></u>	<u><b>P 6,255</b></u>	<u><b>P 6,358</b></u>	<u><b>P 13,844</b></u>
<b>Attributable to:</b>				
Equity holders of the Parent Company	P 1,833	P (4,494)	P (2,882)	P 3,671
Non-controlling interests	<u>32,320</u>	<u>10,749</u>	<u>9,240</u>	<u>10,173</u>
	<u><b>P 34,153</b></u>	<u><b>P 6,255</b></u>	<u><b>P 6,358</b></u>	<u><b>P 13,844</b></u>

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

CERTIFIED CORRECT:

  
**BELLA D. SAVARRA**  
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIODS ENDED SEPTEMBER 30, 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)	P	490	P	260	P	120,501	P	25,158	P	(3,293)	P	(431)	P	1,536	P	(4,827)	P	10,970	P	21,297	P	64,363	P	(28,457)	P	(48,323)	P	159,244	P	527,876	P	687,120
Gain on exchange differences on translation of foreign operations		-		-		-		-		-		-		-		1,859		-		-		-		-		-		1,859		1,991		3,850
Share in other comprehensive income (loss) of associates and joint ventures - net		-		-		-		-		57		-		(59)		-		-		-		-		-		-		(2)		(26)		(28)
Net gain on cash flow hedges, net of tax		-		-		-		-		-		219		-		-		-		-		-		-		-		219		151		370
Net gain on financial assets at fair value through other comprehensive income		-		-		-		-		-		-		33		-		-		-		-		-		-		33		12		45
Equity reserve for retirement plan (Note 3)		-		-		-		(235)		-		-		-		-		-		-		-		-		-		(235)		(323)		(558)
Other comprehensive income (loss)		-		-		-		(178)		219		(26)		1,859		-		-		-		-		-		-		1,874		1,805		3,679
Net income (loss)		-		-		-		-		-		-		-		-		-		-		-		-		-		(41)		30,515		30,474
Total comprehensive income (loss)		-		-		-		(178)		219		(26)		1,859		-		-		-		(41)		-		-		1,833		32,320		34,153
Net addition (reduction) to non-controlling interests and others		-		-		-		(34)		-		(7)		16		(959)		-		-		(286)		-		-		(1,270)		15,454		14,184
Appropriations - net		-		-		-		-		-		-		-		-		5,350		-		(5,350)		-		-		-		-		-
Cash dividends and distributions (Note 9):		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(8,082)		(8,082)
Preferred		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Undated subordinated capital securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Senior perpetual capital securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Redeemable perpetual securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
As of September 30, 2021 (Unaudited)	P	490	P	260	P	120,501	P	25,158	P	(3,505)	P	(212)	P	1,503	P	(2,952)	P	10,011	P	26,647	P	58,686	P	(28,457)	P	(48,323)	P	159,807	P	550,556	P	710,363
As of January 1, 2020 (Audited)	P	490	P	260	P	120,501	P	25,158	P	(3,128)	P	(405)	P	1,533	P	(2,966)	P	11,367	P	19,010	P	67,398	P	(28,457)	P	(48,323)	P	162,438	P	439,622	P	602,060
Loss on exchange differences on translation of foreign operations		-		-		-		-		-		-		-		(2,010)		-		-		-		-		-		(2,010)		(3,134)		(5,144)
Share in other comprehensive loss of associates and joint ventures - net		-		-		-		-		(8)		-		(11)		(31)		-		-		-		-		-		(50)		(47)		(97)
Net loss on cash flow hedges, net of tax		-		-		-		-		-		(39)		-		-		-		-		-		-		-		(39)		(2)		(41)
Net gain on financial assets at fair value through other comprehensive income		-		-		-		-		-		-		20		-		-		-		-		-		-		-		12		32
Equity reserve for retirement plan		-		-		-		1		-		-		-		-		-		-		-		-		-		1		1		2
Other comprehensive income (loss)		-		-		-		(7)		(39)		-		9		(2,041)		-		-		-		-		-		(2,078)		(3,170)		(5,248)
Net income (loss)		-		-		-		-		-		-		-		-		-		-		-		-		-		(2,416)		13,919		11,503
Total comprehensive income (loss)		-		-		-		(7)		(39)		-		9		(2,041)		-		-		(2,416)		-		-		(4,494)		10,749		6,255
Net addition (reduction) to non-controlling interests and others		-		-		-		44		-		-		-		26		(450)		(1,844)		1,507		-		-		(717)		36,682		35,965
Appropriations - net		-		-		-		-		-		-		-		-		-		1,701		(1,701)		-		-		-		-		-
Cash dividends and distributions (Note 9):		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(8,343)		(8,343)
Preferred		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(5,913)		(5,913)
Undated subordinated capital securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(1,447)		(1,447)
Senior perpetual capital securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(5,837)		(5,837)
Redeemable perpetual securities		-		-		-		-		-		-		-		-		-		-		-		-		-		-		(135)		(135)
As of September 30, 2020 (Unaudited)	P	490	P	260	P	120,501	P	25,158	P	(3,091)	P	(444)	P	1,542	P	(4,981)	P	10,917	P	18,867	P	64,788	P	(28,457)	P	(48,323)	P	157,227	P	465,378	P	622,605

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

CERTIFIED CORRECT:

CELIA NAVARRA  
Chief Financial Officer

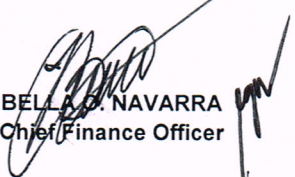


**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2021 AND 2020**  
*(In Millions)*

	2021 Unaudited	2020 Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P 42,978	P 20,444
Adjustments for:		
Interest expense and other financing charges	35,640	37,436
Depreciation, amortization and others - net (Notes 5 and 7)	42,890	12,305
Loss (gain) on sale of property and equipment	(147)	474
Equity in net earnings of associates and joint ventures	(720)	(38)
Interest income	(2,573)	(5,065)
Operating income before working capital changes	118,068	65,556
Changes in noncash current assets, certain current liabilities and others	(16,044)	9,140
Cash generated from operations	102,024	74,696
Interest and other financing charges paid	(37,111)	(41,154)
Income taxes paid	(10,844)	(11,730)
Net cash flows provided by operating activities	54,069	21,812
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment (Note 7)	(46,516)	(48,422)
Additions to advances to contractors and suppliers	(13,059)	(2,495)
Additions to intangible assets	(12,764)	(8,804)
Additions to investments and advances and investment in debt instruments	(7,791)	(3,790)
Additions to investment property	(5,032)	(2,657)
Decrease (increase) in other noncurrent assets and others	(1,128)	718
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(522)	-
Dividends received	17	16
Proceeds from sale of property and equipment	1,120	766
Interest received	2,117	4,485
Cash and cash equivalents of a consolidated subsidiary	-	1,053
Net cash flows used in investing activities	(83,558)	(59,130)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Short-term borrowings	624,872	671,568
Long-term borrowings	91,722	155,134
Payments of:		
Short-term borrowings	(592,808)	(672,458)
Long-term borrowings	(93,834)	(53,296)
Net proceeds from issuance of capital securities of subsidiaries	61,909	69,780
Redemption of capital securities and preferred shares of subsidiaries	(48,799)	(42,656)
Cash dividends and distributions paid to non-controlling shareholders	(26,338)	(21,978)
Payments of lease liabilities	(19,584)	(18,123)
Decrease in non-controlling interests and others	(432)	(1,208)
Net cash flows provided by (used in) financing activities	(3,292)	86,763
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	6,416	(9,291)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(26,365)	40,154
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	347,962	286,677
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	P 321,597	P 326,831

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

CERTIFIED CORRECT:

  
 BELLA P. NAVARRA  
 Chief Finance Officer

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**  
**TRADE AND OTHER RECEIVABLES**  
**SEPTEMBER 30, 2021**  
(In Millions)

				Past Due			
	Total		Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 79,138	P	55,372	P 5,678	P 2,544	P 1,455	P 14,089
Non-trade	50,988		27,481	1,055	630	573	21,249
Amounts Owed by Related Parties	11,462		10,074	254	5	5	1,124
Total	141,588	P	<u>92,927</u>	P <u>6,987</u>	P <u>3,179</u>	P <u>2,033</u>	P <u>36,462</u>
Less allowance for impairment losses	13,354						
Net	<u>P 128,234</u>						

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

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**1. Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its interim consolidated financial statements as at and for the period ended September 30, 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 November 11, 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.

Adoption of Amended Standards

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:

- 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.

- 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:

- 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.

- 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.

- 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 fulfillment 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 fulfillment 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.

On May 18, 2020, the Insurance Commission deferred the implementation of PFRS 17 to two years after its effective date as decided by the International Accounting Standards Board (IASB). With the deferral, PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

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

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

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

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## **2. Business Combination Under Common Control**

### **Merger of Northern Cement Corporation (NCC) and San Miguel Northern Cement, Inc. (SMNCI)**

On March 3, 2021, the BOD and stockholders of NCC and SMNCI approved the plan of merger of NCC and SMNCI, with NCC as the surviving entity.

On June 14, 2021, the Philippine Securities and Exchange Commission (SEC) approved the Articles and Plan of Merger executed by NCC and SMNCI, whereby the entire assets and liabilities of SMNCI will be transferred to and absorbed by NCC.

On the same date, the SEC approved the increase in the authorized capital stock of NCC which was filed on April 27, 2021.

On July 1, 2021, the effective date of the merger, NCC issued 131,835,212 common shares in favor of San Miguel Equity Investments, Inc. for a total amount of P9,834 as consideration for the net assets of SMNCI in accordance with the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of NCC.



On October 6, 2021, the application for a tax-free exchange certification/ruling on the merger was approved by the Bureau of Internal Revenue (BIR).

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

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

### 3. 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)
<b>ASSETS</b>	
Prepaid expenses and other current assets	P407
Investments and advances - net	9
Deferred tax assets	(2,080)
	<b>(P1,664)</b>
<b>LIABILITIES</b>	
Income and other taxes payable	(P881)
Deferred tax liabilities	(3,892)
	<b>(4,773)</b>
<b>EQUITY</b>	
Equity reserves	(217)
Retained earnings	2,216
Non-controlling interests	1,110
	<b>3,109</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>(P1,664)</b>

Forward

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

#### 4. 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
<b>Sales</b>																
External sales	<b>P221,684</b>	P194,484	<b>P17,662</b>	P17,088	<b>P90,951</b>	P85,584	<b>P286,802</b>	P213,028	<b>P13,272</b>	P10,269	<b>P20,188</b>	P10,667	<b>P -</b>	P -	<b>P650,559</b>	P531,120
Inter-segment sales	<b>62</b>	75	<b>4,849</b>	5,158	<b>2,916</b>	2,282	<b>4,771</b>	3,402	<b>1</b>	2	<b>21,425</b>	17,040	<b>(34,024)</b>	(27,959)	<b>-</b>	-
Total sales	<b>P221,746</b>	P194,559	<b>P22,511</b>	P22,246	<b>P93,867</b>	P87,866	<b>P291,573</b>	P216,430	<b>P13,273</b>	P10,271	<b>P41,613</b>	P27,707	<b>(P34,024)</b>	(P27,959)	<b>P650,559</b>	P531,120
<b>Results</b>																
Segment results	<b>P32,571</b>	P20,296	<b>P830</b>	P648	<b>P24,351</b>	P28,431	<b>P20,228</b>	(P11,653)	<b>P4,239</b>	P2,062	<b>P3,333</b>	P204	<b>P1,002</b>	P272	<b>P86,554</b>	P40,260

## 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
<b>Timing of revenue recognition</b>														
Sales recognized at point in time	<b>P221,676</b>	P194,474	<b>P17,176</b>	P16,396	<b>P -</b>	P -	<b>P286,802</b>	P213,028	<b>P -</b>	P -	<b>P18,209</b>	P9,108	<b>P543,863</b>	P433,006
Sales recognized over time	<b>8</b>	10	<b>486</b>	692	<b>90,951</b>	85,584	<b>-</b>	-	<b>13,272</b>	10,269	<b>1,979</b>	1,559	<b>106,696</b>	98,114
Total external sales	<b>P221,684</b>	P194,484	<b>P17,662</b>	P17,088	<b>P90,951</b>	P85,584	<b>P286,802</b>	P213,028	<b>P13,272</b>	P10,269	<b>P20,188</b>	P10,667	<b>P650,559</b>	P531,120

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## 5. Other Income (Charges)

Other income (charges) consists of:

	<i>Note</i>	<b>September 30</b>	
		<b>2021</b>	<b>2020</b>
Construction revenue		<b>P10,418</b>	P10,623
Power Sector Assets and Liabilities Management Corporation monthly fees reduction		<b>3,350</b>	-
Dividend income		<b>17</b>	16
Construction costs		<b>(10,418)</b>	(10,623)
Loss on derivatives - net	11	<b>(6,727)</b>	(2,092)
Gain (loss) on foreign exchange - net	10	<b>(8,469)</b>	6,385
Miscellaneous gain		<b>163</b>	7,971
Gain on fair valuation of investment		-	894
Others		<b>290</b>	(183)
		<b>(P11,376)</b>	P12,991

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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.

Miscellaneous gain includes income recognized by the Group from the Tax Credit Certificates issued by the BIR in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light amounting to P163 and P3,382 in 2021 and 2020, respectively. Miscellaneous gain in 2020 also consists of settlement received by the Group from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts (P3,826) and the gain recognized from the consolidation of NCC (P763).

"Others" consist of rent income, commission income, insurance claims, changes in fair value of financial assets at fair value through profit or loss (FVPL), casualty loss and expenses of closed facilities. The amount in 2020 also includes San Miguel Yamamura Packaging Corporation's inventory loss from the fire incident at its plastic plant located in Pandacan, Manila in February 2020 (P312).

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## 6. 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 September 30, 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	September 30, 2021	P -	P -	P -	P10,942	On demand;	Unsecured
	December 31, 2020	-	-	-	10,304	interest bearing	
	September 30, 2021	-	-	-	221	On demand;	Unsecured
	December 31, 2020	-	-	-	221	non-interest bearing	
Retirement Plans	September 30, 2021	214	-	9,236	-	On demand;	Unsecured;
	December 31, 2020	294	-	9,044	-	interest bearing	no impairment
Associates	September 30, 2021	1,086	7	546	30	On demand;	Unsecured;
	December 31, 2020	2,074	18	498	29	non-interest bearing	no impairment
	September 30, 2021	7	-	150	17,425	Less than 1	Unsecured and
	December 31, 2020	12	-	182	16,925	to 10 years; interest bearing	secured; no impairment
Joint Ventures	September 30, 2021	225	1,242	87	22	On demand;	Unsecured;
	December 31, 2020	267	1,484	72	521	non-interest bearing	no impairment
	September 30, 2021	-	-	621	-	On demand;	Unsecured;
	December 31, 2020	-	-	621	-	interest bearing	with impairment
Shareholders in Subsidiaries	September 30, 2021	11	-	749	-	Less than 1	Unsecured;
	December 31, 2020	5	-	130	-	to 10.5 years; interest bearing	no impairment
	September 30, 2021	41	442	178	2,462	On demand;	Unsecured;
	December 31, 2020	60	470	187	2,250	non-interest bearing	no impairment
Others	September 30, 2021	2,209	2,264	607	104	On demand;	Unsecured;
	December 31, 2020	1,730	2,574	492	11	non-interest bearing	no impairment
	September 30, 2021	-	-	-	7,814	More than one	Unsecured
	December 31, 2020	-	-	-	7,277	year; interest bearing	
<b>Total</b>	<b>September 30, 2021</b>	<b>P3,793</b>	<b>P3,955</b>	<b>P12,174</b>	<b>P39,020</b>		
<b>Total</b>	<b>December 31, 2020</b>	<b>P4,442</b>	<b>P4,546</b>	<b>P11,226</b>	<b>P37,538</b>		

- 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.
- Amounts owed by related parties consist of current and noncurrent receivable, advances to suppliers and deposits, and share in expenses.

The amounts owed by related parties include non-interest bearing receivable from joint ventures included as part of "Trade and other receivables - net" account in the consolidated statement of financial position. Allowance for impairment losses pertaining to these receivables amounted to P595 and P540 as at September 30, 2021 and December 31, 2020, respectively.

- Amounts owed to related parties consist of trade payables, professional fees and leases.
- The amounts owed to associates include interest bearing loans payable to Bank of Commerce (BOC) presented as part of "Loans payable" account amounting to P7,324 and P7,272 and "Long-term debt" account amounting to P10,101 and P9,653 in the consolidated statements of financial position as at September 30, 2021 and December 31, 2020, respectively.

- e. Amounts owed to related parties under “Others” amounting to P7,814 and P7,277 as at September 30, 2021 and December 31, 2020, respectively, are due in more than one year and subject to interest rate of 3% per annum.

## 7. Property, Plant and Equipment

Property, plant and equipment consist of:

### September 30, 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
<b>Cost</b>										
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	852	102	287	1,496	103	1,873	81	-	41,722	46,516
Disposals/retirement	(2)	(175)	-	-	(10)	(1,821)	(69)	-	(14)	(2,091)
Reclassifications and others	847	2,456	2,612	10,142	28	6,122	49	-	(19,905)	2,351
Currency translation adjustments	12	686	4,285	691	222	1,886	4	-	(149)	7,637
<b>September 30, 2021 (Unaudited)</b>	<b>74,874</b>	<b>69,236</b>	<b>153,875</b>	<b>188,284</b>	<b>20,130</b>	<b>206,739</b>	<b>7,780</b>	<b>5,670</b>	<b>121,306</b>	<b>847,894</b>
<b>Accumulated Depreciation and Amortization</b>										
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	347	1,645	4,657	2,660	711	7,548	320	7	-	17,895
Disposals/retirement	(2)	(146)	-	-	-	(915)	(64)	-	-	(1,127)
Reclassifications	99	60	-	-	2	(870)	(21)	-	-	(730)
Currency translation adjustments	1	216	1,378	218	123	855	5	-	-	2,796
<b>September 30, 2021 (Unaudited)</b>	<b>4,584</b>	<b>24,851</b>	<b>22,324</b>	<b>63,483</b>	<b>14,527</b>	<b>119,071</b>	<b>2,340</b>	<b>4,971</b>	<b>-</b>	<b>256,151</b>
<b>Accumulated Impairment Losses</b>										
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
Reversal of impairment	-	-	-	-	-	(14)	-	-	-	(14)
Disposals/retirement	-	-	-	-	-	(4)	-	-	-	(4)
Reclassifications	-	-	-	-	-	(1)	-	-	-	(1)
Currency translation adjustments	-	211	-	-	-	626	-	-	-	837
<b>September 30, 2021 (Unaudited)</b>	<b>-</b>	<b>2,952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,060</b>	<b>26</b>	<b>573</b>	<b>-</b>	<b>13,611</b>
<b>Carrying Amount</b>										
December 31, 2020 (Audited)	P69,026	P40,350	P130,402	P115,350	P6,096	P76,773	P5,589	P133	P99,652	P543,371
<b>September 30, 2021 (Unaudited)</b>	<b>P70,290</b>	<b>P41,433</b>	<b>P131,551</b>	<b>P124,801</b>	<b>P5,603</b>	<b>P77,608</b>	<b>P5,414</b>	<b>P126</b>	<b>P121,306</b>	<b>P578,132</b>

## September 30, 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	5,044	164	655	200	145	2,457	33	-	39,724	48,422
Acquisition of a subsidiary	2,581	2,042	-	-	-	11,418	-	7	790	16,838
Disposals/retirement	(12)	(113)	-	(1)	(52)	(3,827)	(26)	-	(2)	(4,033)
Reclassifications and others	1,554	5,045	24,546	609	564	6,780	523	-	(38,400)	1,221
Currency translation adjustments	(232)	(417)	(1,994)	(672)	(503)	(1,468)	(10)	-	(1,754)	(7,050)
September 30, 2020 (Unaudited)	<b>76,846</b>	<b>62,313</b>	<b>146,713</b>	<b>174,323</b>	<b>19,438</b>	<b>192,170</b>	<b>7,621</b>	<b>5,670</b>	<b>93,795</b>	<b>778,889</b>
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	270	1,454	4,144	2,020	760	6,922	290	11	-	15,871
Acquisition of a subsidiary	88	511	-	-	-	5,894	-	6	-	6,499
Disposals/retirement	(8)	(57)	-	(2)	(43)	(2,742)	(24)	-	-	(2,876)
Reclassifications	9	109	-	-	15	(260)	(11)	-	-	(138)
Currency translation adjustments	(11)	(201)	(899)	(498)	(274)	(889)	(3)	-	-	(2,775)
September 30, 2020 (Unaudited)	<b>4,046</b>	<b>22,590</b>	<b>14,924</b>	<b>59,239</b>	<b>13,338</b>	<b>110,681</b>	<b>2,018</b>	<b>4,961</b>	<b>-</b>	<b>231,797</b>
Accumulated Impairment Losses										
January 1, 2020 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Acquisition of a subsidiary	-	-	-	-	-	330	-	-	-	330
Disposals/retirement	-	-	-	-	-	(10)	-	-	-	(10)
Reclassifications	-	-	-	-	-	(2)	-	-	-	(2)
Currency translation adjustments	-	(64)	-	-	-	(236)	(1)	-	-	(301)
September 30, 2020 (Unaudited)	<b>-</b>	<b>2,650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,232</b>	<b>23</b>	<b>573</b>	<b>-</b>	<b>12,478</b>
Carrying Amount										
September 30, 2020 (Unaudited)	<b>P72,800</b>	<b>P37,073</b>	<b>P131,789</b>	<b>P115,084</b>	<b>P6,100</b>	<b>P72,257</b>	<b>P5,580</b>	<b>P136</b>	<b>P93,795</b>	<b>P534,614</b>

Depreciation and amortization charged to operations amounted to P17,895 and P15,871 for the periods ended September 30, 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 September 30, 2021 and December 31, 2020.

## 8. 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:

	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Net loss attributable to equity holders of the Parent Company	<b>(P41)</b>	(P2,416)
Less: Distributions to CPS for the period	<b>1,213</b>	1,213
Net loss attributable to common shareholders of the Parent Company (a)	<b>(P1,254)</b>	(P3,629)
Weighted average number of common shares outstanding (in millions) (b)	<b>330</b>	330
Basic and diluted loss per common share attributable to equity holders of the Parent Company (a/b)	<b>(P3.80)</b>	(P10.98)

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

As at September 30, 2021 and 2020, the Parent Company has no dilutive debt or equity instruments.

## 9. Dividends

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

### 2021

<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividend per Share</b>
<b>March 11, 2021</b>	<b>March 11, 2021</b>	<b>March 12, 2021</b>	<b>P139.50</b>
<b>May 6, 2021</b>	<b>May 6, 2021</b>	<b>May 7, 2021</b>	<b>139.50</b>
<b>August 5, 2021</b>	<b>August 5, 2021</b>	<b>August 6, 2021</b>	<b>139.50</b>

### 2020

<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividend per Share</b>
March 12, 2020	March 12, 2020	March 13, 2020	P279.00
May 28, 2020	May 28, 2020	May 29, 2020	139.50
August 6, 2020	August 6, 2020	August 7, 2020	139.50

On November 11, 2021, the BOD of the Parent Company declared cash dividends at P139.50 per preferred share, payable on November 12, 2021 to shareholders owning preferred shares as at November 11, 2021.



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## 10. 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, investments in equity and debt instruments, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

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

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

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

#### Interest Rate Risk

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

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

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

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

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

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

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

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

## Interest Rate Risk Table

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

September 30, 2021	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso-denominated	P70,800	P60,523	P74,285	P65,485	P71,736	P141,315	P484,144
Interest rate	3.875% - 12.00%	3.284% - 9.8754%	3.284% - 9.8754%	3.284% - 9.8754%	3.284% - 9.8754%	3.284% - 9.8754%	
Foreign currency-denominated (expressed in Philippine peso)	2,811	6,820	1,197	1,253	1,309	12,730	26,120
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	5.5959%	5.5959%	
<b>Floating Rate</b>							
Philippine peso-denominated	2,327	2,686	706	266	119	7,554	13,658
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	10,549	100,428	129,160	6,381	16,848	4,189	267,555
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	
	P86,487	P170,457	P205,348	P73,385	P90,012	P165,788	P791,477
December 31, 2020	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
<b>Fixed Rate</b>							
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%	
<b>Floating Rate</b>							
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 P2,109 and P2,895 for the period ended September 30, 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:

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	<b>US Dollar</b>	<b>Peso Equivalent</b>	<b>US Dollar</b>	<b>Peso Equivalent</b>
<b>Assets</b>				
Cash and cash equivalents	<b>US\$3,531</b>	<b>P180,119</b>	US\$5,054	P242,692
Trade and other receivables	<b>851</b>	<b>43,425</b>	671	32,211
Prepaid expenses and other current assets	<b>9</b>	<b>460</b>	15	749
Noncurrent receivables	<b>5</b>	<b>278</b>	4	201
	<b>4,396</b>	<b>224,282</b>	5,744	275,853
<b>Liabilities</b>				
Loans payable	<b>321</b>	<b>16,385</b>	291	14,014
Accounts payable and accrued expenses	<b>1,618</b>	<b>108,074</b>	1,955	93,987
Long-term debt (including current maturities)	<b>5,758</b>	<b>293,675</b>	6,679	320,747
Lease liabilities (including current portion)	<b>913</b>	<b>46,577</b>	1,131	54,306
Other noncurrent liabilities	<b>354</b>	<b>18,049</b>	479	23,023
	<b>8,964</b>	<b>482,760</b>	10,535	506,077
Net foreign currency- denominated monetary liabilities	<b>(US\$4,568)</b>	<b>(P258,478)</b>	(US\$4,791)	(P230,224)

The Group reported net gains (losses) on foreign exchange amounting to (P8,469) and P6,385 for the periods ended September 30, 2021 and 2020 respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 5). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	<b>US Dollar to Philippine Peso</b>
<b>September 30, 2021</b>	<b>51.00</b>
December 31, 2020	48.02
September 30, 2020	48.50
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	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>September 30, 2021</b>				
Cash and cash equivalents	(P2,808)	(P3,062)	P2,808	P3,062
Trade and other receivables	(187)	(599)	187	599
Prepaid expenses and other current assets	(6)	(7)	6	7
Noncurrent receivables	-	(5)	-	5
	<b>(3,001)</b>	<b>(3,673)</b>	<b>3,001</b>	<b>3,673</b>
Loans payable	125	290	(125)	(290)
Accounts payable and accrued expenses	586	687	(586)	(687)
Long-term debt (including current maturities)	5,024	4,706	(5,024)	(4,706)
Lease liabilities (including current portion)	890	691	(890)	(691)
Other noncurrent liabilities	345	268	(345)	(268)
	<b>6,970</b>	<b>6,642</b>	<b>(6,970)</b>	<b>(6,642)</b>
	<b>P3,969</b>	<b>P2,969</b>	<b>(P3,969)</b>	<b>(P2,969)</b>
	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>December 31, 2020</b>				
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
	<b>(4,737)</b>	<b>(4,091)</b>	<b>4,737</b>	<b>4,091</b>
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)
	<b>8,601</b>	<b>7,812</b>	<b>(8,601)</b>	<b>(7,812)</b>
	<b>P3,864</b>	<b>P3,721</b>	<b>(P3,864)</b>	<b>(P3,721)</b>

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

### Commodity Price Risk

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

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

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

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

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

### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall 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.

September 30, 2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P321,597	P321,597	P321,597	P -	P -	P -
Trade and other receivables - net	128,234	128,234	128,234	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,809	1,809	1,718	64	27	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	303	303	303	-	-	-
Financial assets at fair value through other comprehensive income (FVOCI) (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,890	5,892	47	-	-	5,845
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	295	304	181	93	30	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,824	25,838	-	293	24,432	1,113
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	11,558	11,558	7,812	2,293	-	1,453
<b>Financial Liabilities</b>						
Loans payable	182,256	182,740	182,740	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	180,178	180,506	180,506	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	4,046	4,046	3,177	42	827	-
Long-term debt (including current maturities)	783,794	917,075	119,054	198,156	417,828	182,037
Lease liabilities (including current portion)	105,039	125,689	30,461	23,506	39,854	31,868
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities)	30,585	31,026	-	17,618	12,397	1,011



December 31, 2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
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
<b>Financial Liabilities</b>						
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.

	September 30, 2021	December 31, 2020
Cash and cash equivalents (excluding cash on hand)	<b>P320,196</b>	P346,178
Trade and other receivables - net	<b>128,234</b>	120,965
Derivative assets	<b>1,809</b>	635
Investment in debt instruments at FVOCI	<b>46</b>	126
Investment in debt instruments at amortized cost	<b>295</b>	255
Noncurrent receivables and deposits - net	<b>25,824</b>	25,058
Restricted cash	<b>11,558</b>	7,980
	<b>P487,962</b>	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.

September 30, 2021						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	<b>P320,196</b>	P -	P -	P -	P -	<b>P320,196</b>
Trade and other receivables	<b>128,234</b>	-	13,354	-	-	<b>141,588</b>
Derivative assets	-	-	-	1,698	111	<b>1,809</b>
Investment in debt instruments at FVOCI	-	-	-	-	46	<b>46</b>
Investment in debt instruments at amortized cost	<b>145</b>	<b>150</b>	-	-	-	<b>295</b>
Noncurrent receivables and deposits	-	<b>25,824</b>	<b>571</b>	-	-	<b>26,395</b>
Restricted cash	<b>7,812</b>	<b>3,746</b>	-	-	-	<b>11,558</b>

December 31, 2020						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
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:

September 30, 2021	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	<b>P55,372</b>	<b>P27,481</b>	<b>P10,074</b>	<b>P92,927</b>
Past due:				
1 - 30 days	<b>5,678</b>	<b>1,055</b>	<b>254</b>	<b>6,987</b>
31 - 60 days	<b>2,544</b>	<b>630</b>	<b>5</b>	<b>3,179</b>
61 - 90 days	<b>1,455</b>	<b>573</b>	<b>5</b>	<b>2,033</b>
Over 90 days	<b>14,089</b>	<b>21,249</b>	<b>1,124</b>	<b>36,462</b>
	<b>P79,138</b>	<b>P50,988</b>	<b>P11,462</b>	<b>P141,588</b>

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.

#### Financial and Other Risks Relating to Livestock

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

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

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

#### Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

#### Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

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

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

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## **11. 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. 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.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

#### Impairment of Financial Assets

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

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

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

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

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

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

#### 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:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P321,597	P321,597	P347,962	P347,962
Trade and other receivables - net	128,234	128,234	120,965	120,965
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,809	1,809	635	635
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	303	303	275	275
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,890	5,890	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)	295	295	255	255
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,824	25,824	25,058	25,058
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	11,558	11,558	7,980	7,980
<b>Financial Liabilities</b>				
Loans payable	182,256	182,256	149,475	149,475
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	180,178	180,178	161,074	161,074
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	4,046	4,046	3,898	3,898
Long-term debt (including current maturities)	783,794	842,749	766,762	843,008
Lease liabilities (including current portion)	105,039	105,039	122,187	122,187
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	30,585	30,585	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 1.0% to 4.5% and 0.9% to 3% as at September 30, 2021 and December 31, 2020, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 1.5% and 0.1% to 0.9% as at September 30, 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:

<b>September 30, 2021</b>	<b>Maturity</b>			<b>Total</b>
	<b>1 Year or Less</b>	<b>&gt; 1 Year - 2 Years</b>	<b>&gt; 2 Years - 5 Years</b>	
Foreign currency risk:				
Call spread swaps:				
Notional amount	<b>US\$40</b>	<b>US\$60</b>	<b>US\$ -</b>	<b>US\$100</b>
Average strike rate	<b>P51.96 to P54.47</b>	<b>P52.95 to P56.15</b>	<b>-</b>	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	<b>US\$10</b>	<b>US\$240</b>	<b>US\$50</b>	<b>US\$300</b>
Average strike rate	<b>P47.00 to P57.50</b>	<b>P47.00 to P56.50</b>	<b>P47.00 to P56.50</b>	
Fixed interest rate	<b>4.19% to 5.75%</b>	<b>4.19% to 5.80%</b>	<b>3.60% to 5.75%</b>	
Interest rate risk:				
Interest rate collar:				
Notional amount	<b>US\$ -</b>	<b>US\$30</b>	<b>US\$30</b>	<b>US\$60</b>
Interest rate	<b>-</b>	<b>0.44% to 1.99%</b>	<b>0.44% to 1.99%</b>	

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

The following are the amounts relating to hedged items:

<b>September 30, 2021</b>	<b>Change in Fair Value Used for Measuring Hedge Ineffectiveness</b>	<b>Hedging Reserve</b>	<b>Cost of Hedging Reserve</b>
Foreign currency risk:			
US dollar-denominated borrowings	<b>(P1)</b>	<b>P -</b>	<b>P13</b>
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	<b>(645)</b>	<b>(932)</b>	<b>598</b>
Interest rate risk:			
US dollar-denominated borrowings	<b>14</b>	<b>(10)</b>	<b>-</b>

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

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

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

September 30, 2021	Notional Amount	Carrying Amount		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
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$100	P71	P19	Prepaid expenses and other current assets, Other noncurrent assets - net and Accounts payable and accrued expenses	P1	P42	(P28)	P75	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risks: Cross currency swap	300	40	956	Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	645	(273)	(610)	132	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	60	-	14	Accounts payable and accrued expenses and Other noncurrent liabilities	(14)	(12)	-	12	Interest expense and other financing charges
December 31, 2020	Notional Amount	Carrying Amount		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
		Assets	Liabilities						
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.

	September 30, 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	28	42	(28)	(80)
Foreign currency risk and interest rate risks	1,156	(273)	(1,603)	24
Interest rate risk	14	(12)	(35)	(8)
Amount reclassified to profit or loss	(638)	219	1,284	423
Tax effect	(231)	65	115	(110)
Ending balance	(P942)	P611	(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 September 30 and June 30, 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\$739, US\$671 and US\$440 as at September 30 and June 30, 2021 and December 31, 2020, respectively, and with various maturities in 2021. The net positive (negative) fair value of these currency forwards amounted to P131, (P16) and (P58) as at September 30 and June 30, 2021 and December 31, 2020, respectively.

#### *Currency Options*

The Group has outstanding currency options with an aggregate notional amount of US\$966, US\$1,675 and US\$995 as at September 30 and June 30, 2021 and December 31, 2020, respectively, and with various maturities in 2021 and 2022. The net negative fair value of these currency options amounted to P424, P205 and P645 as at September 30 and June 30, 2021 and December 31, 2020, respectively.

#### *Commodity Swaps*

The Group has outstanding swap agreements covering its fuel oil requirements, with various maturities in 2021 and 2022. 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 20.5 million barrels, 22.9 million barrels and 32.8 million barrels as at September 30 and June 30, 2021 and December 31, 2020, respectively. The net negative fair value of these swaps amounted to P722, P237 and P724 as at September 30 and June 30, 2021 and December 31, 2020, respectively.

As at September 30 and June 30, 2021 and December 31, 2020, the Group has no outstanding commodity swaps on the purchase of coal and aluminum.

#### *Commodity Options*

As at September 30 and June 30, 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\$253, US\$260 and US\$173 as at September 30 and June 30, 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 net positive (negative) fair value of these embedded currency forwards amounted to (P344), (P36) and P601 as at September 30 and June 30, 2021 and December 31, 2020, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P6,727), (P2,092), (P5,624) and P334 for the periods ended September 30, 2021 and 2020 and June 30, 2021 and 2020, respectively (Note 5).

#### Fair Value Changes on Derivatives

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

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Balance at beginning of year	<b>(P3,263)</b>	(P1,964)
Net change in fair value of derivatives:		
Designated as accounting hedge	<b>955</b>	(1,730)
Not designated as accounting hedge	<b>(6,678)</b>	(4,841)
Acquisition of a subsidiary	<b>-</b>	8
	<b>(8,986)</b>	(8,527)
Less fair value of settled instruments	<b>(6,749)</b>	(5,264)
Balance at end of period	<b>(P2,237)</b>	(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:

	September 30, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial Assets</b>						
Derivative assets	P -	P1,809	P1,809	P -	P635	P635
Financial assets at FVPL	-	303	303	-	275	275
Financial assets at FVOCI	475	5,416	5,890	427	5,488	5,915
<b>Financial Liabilities</b>						
Derivative liabilities	-	4,046	4,046	-	3,898	3,898

The Group has no financial instruments valued based on Level 3 as at September 30, 2021 and December 31, 2020. For the period ended September 30, 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.

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## **12. Subsequent Event**

### **Issuance of P18,000 Fixed-rate Bonds by Petron Corporation (Petron)**

On October 12, 2021, Petron listed in the Philippine Dealing and Exchange Corp. P18,000 fixed rate, Peso-denominated bonds, the first tranche of the P50,000 shelf registered fixed rate bonds approved by the SEC.

The bonds consist of P9,000 Series E Bonds maturing in 2025 with an interest rate of 3.4408% per annum and P9,000 Series F Bonds maturing in 2027 with an interest rate of 4.3368% per annum. Interest shall be payable quarterly in arrears every 12th of January, April, July and October of each year.

The proceeds from the issuance of the bonds were used primarily for the redemption of the outstanding Series A Bonds of Petron amounting to P13,000 on October 27, 2021, payment of existing indebtedness, and partial payment of the power plant project.

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## **13. 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 September 30, 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 cyclicity on the interim operations of the Group's businesses are not material.

- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period ended September 30, 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 September 30, 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 as of third 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 September 30, 2021 and December 31, 2020 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2021 and 2020 for operating efficiency ratios.

	September 2021	December 2020
<u>Liquidity:</u>		
Current Ratio	1.36	1.52
Quick Ratio	0.89	1.06
<u>Solvency:</u>		
Debt to Equity Ratio	1.96	1.95
Asset to Equity Ratio	2.96	2.95
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	1.34%	(0.14%)
Interest Rate Coverage Ratio	2.21	1.78
Return on Assets	2.06%	1.19%

	Period Ended September 30	
	2021	2020
<u>Operating Efficiency:</u>		
Volume Growth (Decline)	3%	(20%)
Revenue Growth (Decline)	22%	(30%)
Operating Margin	13%	8%

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	$\frac{\text{Current Assets} - \text{Inventories} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
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	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

KPI	Formula
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$
<i>* Annualized for quarterly reporting</i>	



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

### **INTRODUCTION**

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. (“Top Frontier” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the period ended September 30, 2021 (with comparative figures as at December 31, 2020 and for the period ended September 30, 2020). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at September 30, 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**

#### **INVESTMENT**

##### **a) MERGER OF NORTHERN CEMENT CORPORATION (NCC) AND SAN MIGUEL NORTHERN CEMENT, INC. (SMNCI)**

On March 3, 2021, the Board of Directors (BOD) and stockholders of NCC and SMNCI approved the plan of merger of NCC and SMNCI, with NCC as the surviving entity.

On June 14, 2021, the Philippine Securities and Exchange Commission (SEC) approved the Articles and Plan of Merger executed by NCC and SMNCI, whereby the entire assets and liabilities of SMNCI will be transferred to and absorbed by NCC.

On the same date, the SEC approved the increase in the authorized capital stock of NCC which was filed on April 27, 2021.

On July 1, 2021, the effective date of the merger, NCC issued 131,835,212 common shares in favor of San Miguel Equity Investments, Inc. (SMEII) for a total amount of P9,834 million as consideration for the net assets of SMNCI in accordance with the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of NCC.

The application for a tax-free exchange certification/ruling on the merger was approved by the Bureau of Internal Revenue (BIR) on October 6, 2021.



**b) INVESTMENT BY SMC EQUIVEST CORPORATION (SMC EQUIVEST) IN PREFERRED SHARES OF BANK OF COMMERCE (BOC)**

On August 5, 2021, SMC Equivest subscribed to 41,666,667 Series 1 Preferred Shares of BOC at P132.00 per share or P5,500 million.

The preferred shares are non-voting, except as provided by law, perpetual or non-redeemable, cumulative, convertible to common shares at the option of the holders, subject to requirements under laws, rules and regulations, have preference over common shares in case of liquidation, dissolution, or winding up of the affairs of BOC and subject to the other terms and conditions as may be fixed by the BOD of BOC, required under regulations, and to the extent permitted by applicable law.

**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. On May 21, 2021, the loan facility agreement was amended to increase the amount from US\$200 million to US\$300 million.

On June 7, 2021, SMC Global availed of the remaining US\$100 million from its amended loan facility agreement. Total amount of draw down as at September 30, 2021 is US\$300 million. The proceeds of the loan were used for the redemption of Series A Bonds and for general corporate purposes. The loan is subject to a floating interest rate and will mature in March 2026.

- On April 12, 2021, SMC Global availed of US\$50 million from its term loan facility with a foreign bank executed on October 12, 2020. Proceeds of the loan will be used mainly for the payment of capital expenditures of the Ilijan Natural Gas-fired Power Plant (including expansion projects related thereto), funding of liquid natural gas import, storage and distribution facilities, pre-operating and operating working capital requirements for Battery Energy Storage System (BESS) projects, and transaction-related fees, costs and expenses of the facility. The loan is subject to a floating interest rate and will mature on October 2023.
- On May 28, 2021, SMC Global has drawn P5,000 million from the term loan facility agreement executed in May 2020. The loan is subject to a fixed interest rate and will mature on May 2025. The proceeds of the loan were used to partly finance the redemption of the Series A Fixed-rate Bonds and for general corporate purposes.

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

On March and June 2021, SMC Tollways drew a total of P12,900 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 a fixed interest rate and payable in 40 quarterly installments up to December 14, 2029. As at September 30, 2021, the total amount of the P41,200 million facility has been fully drawn.

**c) NCC**

On June 30, 2021, NCC availed of P7,075 million from the P12,500 million Omnibus Loan and Security Agreement executed on June 22, 2021. The loan is subject to a fixed interest rate and with final repayment date on June 30, 2031. Proceeds of the loan will be used to partially finance the development, design, construction, completion and operation of its cement plant in Sison, Pangasinan.

**d) The Purefoods-Hormel Company, Inc. (PF-Hormel)**

On September 29, 2021, PF-Hormel availed of P7,000 million term loan, subject to a fixed interest rate and will mature on September 29, 2026. The proceeds of the loan were used for the refinancing of short-term loans.

**SHELF-REGISTRATION OF P50,000 MILLION WORTH OF FIXED-RATE PESO-DENOMINATED BONDS BY SAN MIGUEL CORPORATION (SMC) AND ISSUANCE OF P30,000 MILLION BONDS**

On June 21, 2021, the SEC approved the shelf registration of P50,000 million worth of fixed-rate Peso-denominated bonds of SMC.

On July 8, 2021, SMC issued and listed in the Philippine Dealing and Exchange Corp. P30,000 million Series I Bonds. The bonds are due in 2027, with an interest rate of 3.3832% per annum and a put option on the part of the bondholder on the third anniversary of its issuance and an optional redemption on the part of the Issuer to commence on the 4th anniversary of its issuance. Interest is payable every 8th of January, April, July and October of each year.

The proceeds of the Bonds were used to settle the short-term facilities availed to redeem the remaining US\$516 million Notes on April 26, 2021 and the US\$130 million foreign currency denominated floating interest loan due in 2022 which were paid on July 28, 2021.

**ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)**

**a) Petron Corporation (Petron)**

On April 19, 2021, Petron issued US\$550 million 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 (SGX-ST) on April 20, 2021. The net proceeds were used for the repayment of its indebtedness and for general corporate purposes.

**b) SMC Global**

On June 9, 2021, SMC Global issued US\$600 million SPCS at an issue price of 100%, with an initial distribution rate of 5.45% per annum. The securities were listed in the SGX-ST on June 10, 2021.

On September 15, 2021, SMC Global issued US\$150 million SPCS at an issue price of 100.125%, with an initial distribution rate of 5.45% per annum. The additional securities which were listed on the SGX-ST on September 16, 2021 were consolidated into single series with the securities issued in June 2021.

The net proceeds will be used primarily for the 1,313.1 Megawatts (MW) Batangas Combined Cycle Power Plant Project and for general corporate purposes.

## **REDEMPTION OF EQUITY AND CAPITAL SECURITIES**

### **a) Redemption of Series “2-G”, “2-C” and “2-E” Preferred Shares (SMC2G, SMC2C and SMC2E) by SMC**

On March 30 and September 21, 2021, SMC redeemed its outstanding 66,666,600 SMC2G, 255,559,400 SMC2C and 134,000,100 SMC2E Preferred Shares issued in March, 2016, September 2012 and 2015, respectively. The redemption price was the issue price of P75.00 per share, plus any accumulated unpaid cash dividends.

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

The SMC2C and SMC2E Preferred Shares were redeemed from short-term loan availments.

The shares redeemed were not retired and may be re-issued by SMC at a price to be determined by the BOD. 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 SPCS issued on December 15, 2020.

## **REDEMPTION OF BONDS**

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

On April 5, 2021, SMB redeemed its Series G Fixed-rate Bonds amounting to P12,462 million, which matured on the same day. The Series G Bonds form part of the P15,000 million fixed-rate bonds that were issued by SMB in 2014.

The payment came from the proceeds of the P12,000 million term loans availed 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.

**b) Redemption of Fixed-Rate Peso-Denominated Series A Bonds by SMC Global**

On July 12, 2021, SMC Global redeemed its Series A Fixed-rate Bonds amounting to P6,153 million. The Series A Bonds, which forms part of the P15,000 million Series ABC Fixed-rate Bonds issued by SMC Global in 2016, matured on the same date.

The Series A Bonds were redeemed partly from the proceeds of the US\$100 million out of the US\$300 million Syndication Agreement, and partly from the P5,000 million term loan facility.

**PAYMENT OF OTHER MATURING OBLIGATIONS**

During the nine-month period ended September 30, 2021, the Group paid a total of P14,228 million of its scheduled amortizations and maturing obligations funded by cash generated from operations.

Petron, Energy, Infrastructure, Packaging, Food and Beverage and SMC paid a total of P4,544 million, P4,446 million, P3,157 million, P1,868 million, P93 million and P120 million, respectively, of their scheduled amortizations and maturing long-term debt.

**II. FINANCIAL PERFORMANCE**

**2021 vs. 2020**

The Group's consolidated sales for the nine months ended September 30, 2021 increased by 22%, at P650,559 million, with major businesses recording continuous volume and revenue growth, particularly Petron and the Energy business which posted sustained quarter on quarter growth, while the volumes of Beer domestic and Spirits division of the Food and Beverage business were partly affected by the lockdown restrictions and liquor bans which were re-implemented in specific areas in July and August.

The Group's cost of sales was higher by P76,486 million or 18% mainly due to: a) higher cost per liter of Petron; b) higher sales volumes and increase in excise tax of the Food and Beverage business; and c) higher cost of coal, full nine months operations of the Masinloc Unit 3 which started commercial operations on September 26, 2020 and higher energy purchases from the spot market and external suppliers of the Energy business.

The decrease in selling and administrative expenses by 6% to P54,490 million was mainly due to lower rent, personnel expenses, taxes and licenses and contracted services.

Consolidated operating income grew 115% to P86,554 million, from P40,260 million of the same period last year mainly brought about by higher sales coupled with group-wide cost management and enhanced operational efficiencies.

Consolidated earnings before interest, taxes, depreciation and amortization ended at P117,153 million, 42% higher than last year's P82,544 million.

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

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 of associates and joint ventures was mainly due to the share in the lower net loss of Angat Hydropower Corporation (Angat Hydro) and share in the higher net income of Manila North Harbour Port, Inc. (MNHPI).

The gain on sale of property and equipment in 2021 mainly represents the gain on the disposal of properties by San Miguel China Investment Co. Ltd. The loss in 2020 mainly represents the retirement by San Miguel Yamamura Packaging Corporation (SMYPC) of its Manila Plastics Plant's fixed assets due to the fire incident in Pandacan, Manila in February 2020.

Other charges - net in 2021 primarily consist of the loss on the revaluation of foreign currency denominated net liabilities as a result of the depreciation of Philippine Peso against the US Dollar by P2.98 in September 2021 partly offset by San Miguel Energy Corporation's (SMEC) recognition of income from the 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.

The increase in income tax expense in 2021 was primarily due to the turnaround of Petron resulting to an income tax expense in 2021 compared to income tax benefit in 2020 and the higher taxable income of the Food and Beverage Business. This was partly offset by the impact of the adoption of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law in 2021 and 2020, which reduced the income tax rate from 30% to 25%. The effect in 2020 was adjusted in the first quarter of 2021, primarily from the Energy Business' finance lease liabilities under the Independent Power Producer Administration (IPPA) Agreements.

The Group continued its steady recovery from the economic impacts of the pandemic, as consolidated net income ended at P30,474 million for the first nine months of the year, more than double the P11,503 million reported in the same period last year.

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

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

## **1. FOOD AND BEVERAGE**

San Miguel Food and Beverage, Inc. (SMFB) generated consolidated revenues of P221,746 million for the first nine months of 2021, an increase of 14% from the same period last year, as its Food, Beer and Spirits divisions all registered growth.

Consolidated operating income rose 60% to P32,806 million, while net income for the period was up 68% to P24,184 million, a significant achievement despite the heightened pandemic restrictions in the third quarter and higher taxes imposed on alcohol.

### **a. Beer and NAB Division**

SMB posted consolidated sales revenue of P82,082 million, P9,600 million or 13% higher compared to last year as consolidated beer volumes reached 147.4 million cases for the nine-month period.

With higher volumes and continuous cost management initiatives, consolidated operating income increased by 23% to P18,182 million and net income likewise rose 27% to P14,049 million.

### **Domestic Operations**

Domestic operations registered P74,006 million in revenues, up 13% from the previous year, mainly attributable to higher volumes, coupled with the full nine-month impact of the price increase implemented in March last year. This resulted in P16,937 million operating income, an increase of 20% versus a year ago.

SMB continues to focus on initiatives to boost demand and consumption of its beer brands with relevant thematic campaigns such as *“Beer Call Muna Tayo”* for Pale Pilsen, *“Patak”* for Red Horse and *“Imagine”* for San Mig Light, while further strengthening its e-commerce presence and availability in tertiary outlets. This was supported by channel-specific consumer and trade promotions, on-ground activations, and the nationwide implementation of *“SMB Oktoberfest Instant GCash Panalo Under-The-Crown Promo”* starting September 1, 2021.

### **International Operations**

International operations posted a double growth in sales on the strength of higher volumes in Indonesia and Exports which were partially offset by the volume declines in South China, Vietnam, Hong Kong and Thailand due to the extended and varying pandemic restrictions. Operating income significantly grew compared to last year resulting from volume recoveries coupled with programs to manage costs and improve sales and operational efficiencies.

#### **b. Spirits Division**

Ginebra San Miguel Inc. (GSMI) sustained its growth momentum delivering 30.3 million cases in sales volumes year-to-date, an 11% increase from the previous year. Sales revenues increased 21% to P30,720 million, with price increases implemented this year. Performance was driven by relevant marketing programs and the continuous push to expand distribution coverage.

Supporting this growth in the third quarter was the launch of GSM Blue’s latest thematic campaign, *“Choose What’s True”* and the re-airing of Ginebra San Miguel’s *“Bagong Tapang”* TV and radio advertisements. Complementing these major campaigns was the implementation of a per area raffle promo that helped spur consumption and intensified merchandising activities on ground that further increased brand visibility.

As a result, operating income of P4,078 million was 31% better than the year before. Net income amounted to P3,170 million, 43% higher versus the same period last year.

#### **c. Food Division**

The Food division accelerated the pace in the third quarter, posting consolidated revenues of P108,950 million as of the end of September, 13% higher compared to the same period last year. Growth was driven by the robust performance of the Protein and Flour segments, which both grew by double-digits, boosted by positive pricing and volume gains.

Major increases in commodity prices put some pressure on margins, but the Food division’s continued focus on operational efficiencies and cost saving initiatives allowed topline growth to cascade down such that operating and net income grew four times faster than the same period last year to P10,552 million and P7,573 million, respectively.

The Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, maintained its 20% revenue growth buoyed by fresh chicken sales as

inventory levels were kept at a minimum vis-à-vis the industry's rising inventory. Poultry sales volumes growth was led by wet markets, lechon manok outlets and community resellers, segments that thrived during a period of limited mobility for consumers. Average selling prices tracked above pre-pandemic levels as price increases were implemented to partially cover for significant rises in the prices of feed materials such as corn, soybean meal and wheat.

Revenues from the Animal Nutrition and Health segment expanded by 9% in year-to-date September due to strong demand for free range fowl feeds, duck, layer and aquatic feeds. These strong performances more than made up for slower sales in hog and broiler feeds, which continued to be affected by African Swine Fever (ASF) outbreak and volatile live chicken prices, respectively. Sales was further fueled by aggressive market penetration efforts, market share grab from competition, and superior product quality and consistent supply from the new feed mills.

The Prepared and Packaged Food segment's consolidated revenues increased from last year, particularly Purefoods Hormel, which grew by 9% as home consumption remained high. Core products such as Tender Juicy hotdogs, nuggets and bacon posted double digit growth, supported by new advertising and consumer promotions. Recently launched products such as ready-to-eat viands, meat-free Veega, and seafood nuggets showed robust growth and contributed to margin improvement.

Meanwhile, Magnolia's revenues continued to be challenged by waning interest in home baking as well as limited operations of food service outlets. Nevertheless, Star Margarine, Dari Crème, and Cheeze continued to deliver growth as compared to declining industry volumes based on Nielsen's latest data. Sales of newly-launched Magnolia salad aids have also been encouraging while San Mig sugar-free coffee has been getting traction in the trade.

The Flour segment revenues ended higher, growing by 12% in the first nine months driven by growth in all geographical areas, led by Mindanao and the Greater Manila Area (GMA), which were lifted by strong volumes from new distributors and recovery in existing customers' operations.

## **2. PACKAGING**

The Packaging business' consolidated revenues for the first nine months amounted to P22,511 million, slightly higher than P22,246 million reported in the same period last year. Higher sales from metal crown, 2-pc aluminum cans, flexibles, Malaysia and Australasia businesses mitigated lower volume requirements of glass and plastics from key domestic beverage customers.

Operating income for the period grew 28% from last year at P831 million due to maximization of cost containment measures.

## **3. ENERGY**

SMC Global recorded off-take volumes of 20,533 Gigawatt Hours (Gwh), 3% up versus the same period last year, driven by longer operating hours for the Masinloc, Limay, and San Roque Power Plants.

Consolidated revenues increased by 7% to P93,867 million, while operating income declined by 14% to P24,909 million due to higher spot purchases and rising coal prices.

Net income amounted to P13,694 million, down 5%. The Energy business' performance was partly affected by ongoing gas restrictions at the Malampaya field, and the extended outage of the Sual Power Plant.

#### **4. FUEL AND OIL**

Petron reported a consolidated net income of P4,985 million, a turnaround from the P12,606 million net loss it reported in 2020. Sales volumes in its Philippine operation posted recoveries from lubricants and retail stations which increased by 28% and 9% respectively, along with a significant growth in its petrochemicals business.

Consolidated revenues rose 35% to P291,573 million. Petron was able to efficiently manage costs, resulting in consolidated operating income for the period of P13,411 million, up 229% from the P10,364 million operating loss in the previous year.

#### **5. INFRASTRUCTURE**

The Infrastructure business generated revenues of P13,273 million for the first nine months of the year, up by 29% from last year as average daily traffic volumes grew by 35% at all operating toll roads, particularly South Luzon Expressway (SLEX), Star Tollway and Skyway system.

Operating income rose 102% to P4,317 million from the same period in 2020.

#### **2020 vs. 2019**

The Group's consolidated sales and operating income for the nine months ended September 30, 2020 amounted to P531,120 million and P40,260 million, 30% and 54% below from 2019, respectively, which still reflected the impact of the quarantine restrictions affecting the performance of the businesses in the first half of 2020. The decline in revenue was mainly caused by the lower sales volume of Petron and the Beer and NAB division under Food and Beverage business due to the implementation of lockdown and quarantine protocols. The impact on consolidated operating income was significant due to the volumes lost in the first six months of 2020, the inventory losses incurred by Petron in the first half, the increase in alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the quarantine period.

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

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

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



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

The increase in equity in net earnings was mainly due to the share in the net income of MNHPI, from five months share in 2019 to nine months in 2020. MNHPI was deconsolidated and became a joint venture effective April 2019. This was offset by the share in the higher net losses of Angat Hydro.

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

The increase in other income - net was mainly due to the: (a) settlement received by the Energy business from third party contractors on account of damages arising from the latter's nonfulfillment of obligations under procurement-related contracts, (b) income recognized by SMC and SMB from the tax credit certificate issued by the BIR related to the San Mig Light Tax Case, and (c) higher gain on foreign exchange as a result of the appreciation of Philippine Peso against the US Dollar by P2.14 in September 2020.

The lower income tax expense was primarily due to: (a) Petron's tax benefit from loss before tax in September 2020 versus income before tax of the same period in 2019 and (b) lower taxable income of SMB.

Consolidated net income for the nine-month period of 2020 amounted to P11,503 million, a turnaround from the net loss of P4,012 million in the first half. Consolidated net income for the third quarter of 2020 amounted to P15,515 million as most of the businesses continued to sustain recoveries, with Petron bouncing back to profitability.

The share of NCI on the Group's net income decreased in September 2020 mainly due to the net loss of Petron in September 2020 versus a net income in September 2019 and lower net income of SMB and Atlantic Aurum Investments B.V., partly offset by higher amount of distribution on SMC Global's USCS and SPCS.

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

## **1. FOOD AND BEVERAGE**

SMFB's consolidated sales for the nine months period of 2020 amounted to P194,559 million, 14% lower than the same period in 2019. This is an improvement from its 19% decline in the first half of 2020 brought about by volumes improvement from Beer and Spirits divisions and sustained growth from Food division's Prepared and Packaged Food segment. This improvement was, however, slightly hindered by lower volumes from the Protein and Animal Nutrition and Health segments of the Food division.

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

### **a. Beer and NAB Division**

SMB showed significant improvements in the third quarter of 2020 delivering revenues of P29,689 million, more than double the P14,389 million revenue in the second quarter of 2020. However, despite these improvements, sales volumes for the nine-month period in 2020 still ended 38% lower than the same period in 2019.

Consolidated sales and operating income amounted to P72,482 million and P14,809 million in 2020, 30% and 47% lower than 2019, respectively. This is an improvement from the 39% and 61% decline in the first half of 2020.

Net income amounted to P11,080 million.

### **Domestic Operations**

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

Sales volumes for the first nine months of 2020, however, were still lower by 39%. This translated to sales of P65,408 million and operating income of P14,116 million in 2020, lower by 30% and 48% than 2019, respectively.

To support the ongoing recovery, SMB has been strengthening its marketing campaigns with TV and radio placements namely: the '*Inom Sweet Home 5+1*' promo and 'Pass the Bottle' with the San Miguel Beermen. Digital brand campaigns were also rolled out to supplement traditional media and for the first time, the Oktoberfest was held over Facebook.

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

### **International Operations**

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

## **b. Spirits Division**

GSMI sustained its volume rebound, recording an overall volume jump of 33% in the third quarter of 2020, registering September year-to-date volume which is 3% higher than the same period of 2019. This is a complete turnaround from the 10% volume decline in first half. The strong volume recovery was mainly due to GSMI's latest thematic campaign, "One Ginebra Nation" which garnered more than 15 million combined views on Facebook and YouTube just three weeks from its launch in September 2020, complemented by localized implementation of consumer promos and continuous efforts to expand distribution coverage.

Consolidated sales amounted to P25,343 million in 2020, 18% higher than the same period in 2019, while operating income and net income further grew by 41% and 67% at P3,110 million and P2,212 million, respectively.

## **c. Food Division**

The Food division registered consolidated sales of P96,737 million in the first nine months of 2020, 4% lower compared to the same period in 2019, primarily due to the prevailing weakness of poultry prices, slowdown in the food service and retail operations resulting from the COVID-19 quarantine restrictions, and the continuing effects of the

ASF on commercial feeds. This was, however, cushioned by the solid performance of the Prepared and Packaged Food segment, reflecting its resilience and effective operational execution in addressing the changes in consumer behavior and channel dynamics.

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

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

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

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

All these resulted to the Food division's consolidated operating income of P2,658 million and consolidated net income of P1,548 million, lower by 17% and 13% from the same period in 2019, respectively.

## **2. PACKAGING**

The Packaging business also showed improvements in the Philippine operations during the third quarter of 2020, registering an increase in deliveries to pharmaceutical, beverage, and food customers as well as to exports market. Australia, Malaysia and China operations remained stable. Sales, however, still fell behind 2019 for the nine months period of 2020.

Sales and operating income amounted to P22,246 million and P649 million, down by 16% and 74%, respectively.

## **3. ENERGY**

SMC Global posted off-take volumes of 19,825 GWH for the nine-month period of 2020, which was 8% lower compared to the same period in 2019. This was due to power outages from the Sual and Ilijan Power Plants, the deferral of the commencement to supply Manila Electric Company (Meralco) under the 290MW mid-merit power supply agreements and the 260MW extended contract pending Energy Regulatory Commission (ERC) approval. The provisional approval of the ERC on the mid-merit contract was posted and distributed to the parties only on March 16, 2020, while the approval on the extension was still pending as at September 30, 2020.

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

Lower fuel costs and spot purchases, mixed with power dispatch strategies resulted in operating income of P28,989 million, only 3% lower versus the same period in 2019. Net income, on the other hand, amounted to P14,480 million, 27% higher than 2019.

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

#### **4. FUEL AND OIL**

Petron's rebound during the third quarter of 2020 delivered consolidated net income of P1,630 million during this period. This was the result of stabilizing world crude oil prices, the government's easing of the quarantine restrictions and opening of the economy. Consolidated retail volumes registered a 49% improvement in the third quarter of 2020, with Philippine operations improving by 33% compared with the second quarter of 2020. Domestic volume has been recovering well with most of the Petron stations in the country operating under normal hours since August. Modest inventory gains have also been realized in the third quarter of 2020, a turnaround from inventory losses in the first half of 2020.

Petron's performance for the nine months period of 2020, however, still reflected the impact of the challenges the past six months of 2020. Consolidated sales settled at P216,430 million, 43% lower than 2019 with consolidated sales volume from both the Philippine and Malaysian operations also down 24% to 59.5 million barrels from 78.7 million barrels in 2019.

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

Global oil prices remained depressed with benchmark crude oil averaging US\$41.5 per barrel during the third quarter of 2020 and refining cracks barely recovering from its lowest point of US\$2.20 per barrel in September 2020 to current levels of around US\$2.80 per barrel.

#### **5. INFRASTRUCTURE**

The Infrastructure business' operating toll roads traffic volumes likewise saw some improvements during the third quarter of 2020 compared to the first half, but traffic volumes for the nine months period were still down by 37%.

Consolidated sales for the nine months period amounted to P10,271 million, 42% lower than the same period in 2019, while operating income stood at P2,140 million.

The Infrastructure business delivered on its major commitments, completing the structure of Skyway Stage 3 Project, linking SLEX and North Luzon Expressway (NLEX).

Skyway Stage 3 was soft-opened on December 29, 2020 and was inaugurated and opened to motorists on January 14, 2021. Travel time from SLEX to NLEX was shortened to around 30 minutes from around three hours previously.

### III. FINANCIAL POSITION

#### 2021 vs. 2020

Consolidated total assets as at September 30, 2021 amounted to about P2,104,073 million, P78,529 million or 4% higher than December 31, 2020. The slight increase was primarily due to increase in inventories, property, plant and equipment, investment property and other intangible assets.

The decrease in cash and cash equivalents by P26,365 million was mainly due to capital expenditures for the ongoing projects of the Energy, Food and Beverage, Cement and Infrastructure businesses, payment of dividends and distributions and lease liabilities and the redemption of equity securities. This was partly offset by the cash generated from operations and net proceeds from short-term loans and issuance of capital securities.

The increase in trade and other receivables - net by P7,269 million was mainly attributable to higher trade customer balances of Petron and higher receivables from the Malaysian Government under the Automatic Pricing Mechanism, net of lower receivables from the Philippine Government relating to duty drawback, Value Added Tax (VAT) and specific tax claims.

The increase in inventories by P27,569 million was due to higher prices of crude oil and finished products of Petron Philippines and Malaysia offset by the lower volume of Petron Philippines.

The decrease in total biological assets by P303 million was due to lower cost of poultry and retirement of breeding stocks.

The increase in prepaid expenses and other current assets by P10,648 million was primarily due to the: (a) additional restricted cash funding for the payment of contractors of Infrastructure and Energy businesses, (b) higher derivative assets on currency options by SMC and (c) higher prepaid taxes of Petron and Energy business.

The increase in investments and advances - net by P6,717 million mainly represents the subscription to Series 1 Preferred Shares of BOC by SMC Equivest.

The increase in property, plant and equipment by P34,761 million was mainly due to costs of the: (a) on-going projects of the Energy and Cement businesses, the Food and Beer and NAB divisions and Petron. This was partly offset by the depreciation during the period.

The increase in investment property by P8,078 million was mainly due to the acquisition of various properties by San Miguel Properties, Inc. and San Miguel Holdings Corp. (SMHC).

The decrease in deferred tax assets by P3,867 million was mainly due to the lower income tax rates on net operating loss carry-over (NOLCO), allowance for impairment of receivables and inventory losses and unrealized gross profit and foreign exchange losses as a result of the implementation of CREATE Law.

The increase in other noncurrent assets by P8,697 million was due to advances to contractors and suppliers for the ongoing projects of the Energy business, partly offset by the reduction in MPPCL's restricted cash used for payment of loan and interests and suppliers and contractors.

The increase in loans payable by P32,781 million was mainly due to the net availments by SMC and Petron for general corporate requirements and refinancing of long-term debt.

The increase in accounts payable and accrued expenses by P21,911 million was mainly due to additional payable to contractors of the Energy business for the ongoing projects.

The decrease in dividends payable by P1,245 million was mainly due to the payment in 2021 by SMC of the dividend payable to preferred shares which was outstanding as at December 31, 2020.

The increase in total long-term debt, net of debt issue costs, by P17,032 million, was primarily due to the revaluation of foreign currency denominated loans.

The decrease in total lease liabilities, by P17,148 million was primarily due to the payments made to PSALM by the Energy business' entities under the IPPA Agreements.

The increase in other noncurrent liabilities by P2,531 million was due to Mariveles Power Generation Corporation's recognition of retention payable related to the ongoing Mariveles Power Plant Project.

The increase in equity reserves by P890 million was mainly due to gain on exchange differences on the translation of foreign operations for the period partly offset by the redemption of the US\$300 million USCS by SMC Global and the impact of the CREATE Law on the Group's deferred tax on reserve for retirement plan.

The increase in appropriated retained earnings by P5,350 million was mainly due to the appropriation for the period by (a) SMC SLEX Holdings Company Inc.'s (formerly MTD Manila Expressways Inc.) to fund the construction of the SLEX Toll Road 4 project, (b) SMC SLEX, Inc.'s (formerly South Luzon Tollways Corporation) for funding of capital expenditures, and (c) Magnolia, Inc. to fund its Butter, Margarine and Cheese Plant expansion projects, net of Petron's reversal of appropriation for capital projects that were already completed.

The decrease in unappropriated retained earnings by P5,677 million was mainly due to the appropriations and share issue cost.

### **2020 vs. 2019**

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

The increase in cash and cash equivalents by P40,154 million was mainly due to the net proceeds from the issuance by SMC of US\$1,950 million long-term corporate notes, US\$500 million SPCS and P14,810 million Redeemable Perpetual Securities (RPS), and SMC Global of US\$600 million SPCS. The increase was reduced by SMC's redemption of Series "1" Preferred shares (SMCP1) and Series "2-D" Preferred Shares (SMC2D) and payment of corporate notes, various capital expenditures of the Group, and payment of lease liabilities by the Energy business.

The decrease in trade and other receivables by P16,715 million was mainly due to the lower trade customer balances of Petron attributable to lower fuel prices and drop in sales volume.

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

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

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

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

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

The increase in other intangible assets by P13,533 million was mainly due to the costs of various projects of the Infrastructure business, net of amortization for 2020, and the mineral rights recognized upon the consolidation of NCC.

The increase in deferred tax assets by P2,771 million was mainly due to the recognized deferred tax on NOLCO of Petron and San Miguel Foods, Inc.

The decrease in other noncurrent assets by P7,242 million was mainly due to the: (a) SMC Skyway Stage 3 Corporation's (formerly Citra Central Expressway Corp.) recoupment of advances to contractors for the Skyway Stage 3 Project, (b) SMC TPLEX Corporation's (formerly Private Infra Dev Corporation) reclassification from noncurrent to current of subsidy receivable due for collection in 2020, (c) SMC's reclassification to debt issue cost of the loan facilitation fees and other filing and agency fees on loan facilities entered in 2019, and (d) SMB's amortization of deferred containers and reclassification of advances to suppliers to property, plant and equipment.

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

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

The decrease in dividends payable by P303 million was mainly due to the payment in 2020 of the P295 million dividend payable to the holders of SMCP1 which was outstanding as at December 31, 2019. The SMCP1 Shares were redeemed on April 14, 2020.

The increase in total long-term debt, net of debt issue costs, by P86,684 million was due mainly to: (a) SMC's availment of US\$1,950 million corporate notes and (b) SMFB's issuance of P15,000 million fixed-rate Peso-denominated bonds. The increase was partly offset by the payment of maturing obligations and translation adjustments on the foreign currency-denominated loans.

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

The decrease in equity reserves by P2,459 million pertains mainly to the currency translation adjustments for 2020 resulting from the appreciation of Philippine Peso against the US Dollar.

The increase in NCI by P25,756 million was mainly due to the: (a) issuance of US\$600 million SPCS by SMC Global, (b) issuance of US\$500 million SPCS and RPS by SMC, (c) consolidation of NCC and (d) issuance of RPS by SMEII, offset by the: (e) redemption of Series "2" Preferred Shares by SMFB and SMCP1 and SMC2D by SMC, (f) dividend and distributions for 2020, and (g) share of NCI on CTA, net of the share of NCI on the Group's net earnings for 2020.

#### Equity

The increase in equity is due to:

<i>(In millions)</i>	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Net income during the period	<b>P30,474</b>	P11,503
Net addition to non-controlling interests and others	<b>14,184</b>	35,965
Other comprehensive income (loss)	<b>3,679</b>	(5,248)
Cash dividends and distributions	<b>(25,094)</b>	(21,675)
	<b>P23,243</b>	P20,545

#### IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Net cash flows provided by operating activities	<b>P54,069</b>	P21,812
Net cash flows used in investing activities	<b>(83,558)</b>	(59,130)
Net cash flows provided by (used in) financing activities	<b>(3,292)</b>	86,763

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



Net cash flows used in investing activities included the following:

<i>(In millions)</i>	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Additions to property, plant and equipment	<b>(P46,516)</b>	(P48,422)
Additions to advances to contractors and suppliers	<b>(13,059)</b>	(2,495)
Additions to intangible assets	<b>(12,764)</b>	(8,804)
Additions to investments and advances and investment in debt instruments	<b>(7,791)</b>	(3,790)
Additions to investment property	<b>(5,032)</b>	(2,657)
Decrease (increase) in other noncurrent assets and others	<b>(1,128)</b>	718
Acquisition of subsidiaries, net of cash and cash equivalents acquired	<b>(522)</b>	-
Dividends received	<b>17</b>	16
Proceeds from sale of property and equipment	<b>1,120</b>	766
Interest received	<b>2,117</b>	4,485
Cash and cash equivalents of a consolidated subsidiary	<b>-</b>	1,053

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

<i>(In millions)</i>	<b>September 30</b>	
	<b>2021</b>	<b>2020</b>
Net proceeds from issuance of capital securities of subsidiaries	<b>P61,909</b>	P69,780
Proceeds from (payment of) short-term loans - net	<b>32,064</b>	(890)
Redemption of capital securities and preferred shares of subsidiaries	<b>(48,799)</b>	(42,656)
Payment of cash dividends and distributions	<b>(26,338)</b>	(21,978)
Payment of lease liabilities	<b>(19,584)</b>	(18,123)
Proceeds from (payment of) long-term debt - net	<b>(2,112)</b>	101,838

The effect of exchange rate changes on cash and cash equivalents amounted to P6,416 million and (P9,291 million) for the periods ended September 30, 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.

	September 2021	December 2020
<b>Liquidity:</b>		
Current Ratio	<b>1.36</b>	1.52
Quick Ratio	<b>0.89</b>	1.06
<b>Solvency:</b>		
Debt to Equity Ratio	<b>1.96</b>	1.95
Asset to Equity Ratio	<b>2.96</b>	2.95
<b>Profitability:</b>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	<b>1.34%</b>	(0.14%)
Interest Rate Coverage Ratio	<b>2.21</b>	1.78
Return on Assets	<b>2.06%</b>	1.19%
<b>Periods Ended September 30</b>		
	<b>2021</b>	<b>2020</b>
<b>Operating Efficiency:</b>		
Volume Growth (Decline)	<b>3%</b>	(20%)
Revenue Growth (Decline)	<b>22%</b>	(30%)
Operating Margin	<b>13%</b>	8%

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

KPI	Formula
Revenue Growth	$\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

*\* Annualized for quarterly reporting*