# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended

   Mar 31, 2023

2. SEC Identification Number

   CS200803939

3. BIR Tax Identification No.

   006-990-128

4. Exact name of issuer as specified in its charter

   TOP FRONTIER INVESTMENT HOLDINGS, INC.

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City
   Postal Code
   1200

8. Issuer's telephone number, including area code

   (02) 8632-3481

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

   N.A.

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

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common Shares | 332,886,167 |
| Conso. Total Liab. (as of 3.31.23 in Millions Php) | 1,732,871 |

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

   ☑ Yes ☐ No

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

   Philippine Stock Exchange ; Common Shares

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No



TOP FRONTIER
INVESTMENT HOLDINGS, INC.

# Top Frontier Investment Holdings, Inc.
# TFHI

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

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| | |
|---|---|
| **For the period ended** | Mar 31, 2023 |
| **Currency (indicate units, if applicable)** | Php (in Millions) |

**Balance Sheet**

| | Period Ended | Fiscal Year Ended (Audited) |
|---|---|---|
| | Mar 31, 2023 | Dec 31, 2022 |
| **Current Assets** | 788,946 | 887,472 |
| **Total Assets** | 2,470,515 | 2,543,623 |
| **Current Liabilities** | 619,389 | 733,982 |
| **Total Liabilities** | 1,732,871 | 1,815,316 |
| **Retained Earnings/(Deficit)** | 76,125 | 69,919 |
| **Stockholders' Equity** | 737,644 | 728,307 |
| **Stockholders' Equity - Parent** | 201,016 | 195,075 |
| **Book Value per Share** | 339.73 | 325.43 |

**Income Statement**

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|---|---|---|---|
| **Gross Revenue** | 346,716 | 316,756 | 346,716 | 316,756 |
| **Gross Expense** | 312,074 | 284,703 | 312,074 | 284,703 |
| **Non-Operating Income** | 6,566 | 1,489 | 6,566 | 1,489 |
| **Non-Operating Expense** | 11,378 | 14,312 | 11,378 | 14,312 |
| **Income/(Loss) Before Tax** | 29,830 | 19,230 | 29,830 | 19,230 |
| **Income Tax Expense** | 9,978 | 6,208 | 9,978 | 6,208 |
| **Net Income/(Loss) After Tax** | 19,852 | 13,022 | 19,852 | 13,022 |
| **Net Income Attributable to Parent Equity Holder** | 6,360 | 1,991 | 6,360 | 1,991 |
| **Earnings/(Loss) Per Share (Basic)** | 15.57 | 4.8 | 15.57 | 4.8 |
| **Earnings/(Loss) Per Share (Diluted)** | 15.57 | 4.8 | 15.57 | 4.8 |

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|---|---|---|
| **Earnings/(Loss) Per Share (Basic)** | -38.85 | -9.33 |
| **Earnings/(Loss) Per Share (Diluted)** | -38.85 | -9.33 |

| Other Relevant Information |
|---|
| None. |

**Filed on behalf by:**

| | |
|---|---|
| **Name** | Irene Cipriano |
| **Designation** | Assistant Corporate Secretary |

# COVER SHEET

| C | S | 2 | 0 | 0 | 8 | 0 | 3 | 9 | 3 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|

S. E. C. Registration Number

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

(Company's Full Name)

| 5 | th | | F | l | o | o | r | , | | E | N | Z | O | | B | l | d | g | . |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
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| A | v | e | . | , | | M | a | k | a | t | i | | C | i | t | y | | | |

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

| Irene M. Cipriano | (02) 8632-3481<br>0917-1010-354 |
|---|---|
| Contact Person | Company Telephone Number |

| 1 2 | 3 1 | SEC Form 17-Q<br>(1st Quarter of 2023) | 0 7 | 0 9 |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.
Number/Section

Amended Articles

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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S T A M P S

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**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2023**

2. SEC Identification Number **CS200803939**

3. BIR Tax Identification No. **006-990-128**

4. **TOP FRONTIER INVESTMENT HOLDINGS, INC.**
   Exact name of issuer as specified in its charter

5. **Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
   Address of issuer's principal office Postal Code

8. **(02) 8632-3673**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding (as of March 31, 2023) |
|---|---|
| **Common Shares** | **332,886,167*** |

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

| | |
|---|---|
| **Total Liabilities** | **P1,732,871 million** |

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

    Yes [ √ ] No [ ]

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

    **Philippine Stock Exchange** **Common Shares**

SECForm17-Q 0323 (Instructions)
February 2001

12. Indicate by check mark whether the registrant:

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

Yes [ √ ] No [ ]

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

Yes [ √ ] No [ ]

**PART I -- FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2023 (with comparative figures as of December 31, 2022 and for the period ended March 31, 2022) and Selected Notes to the Consolidated Financial Statements is hereto attached as Annex "A".

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

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

**PART II -- OTHER INFORMATION**

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

**SIGNATURES**

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

Issuer **TOP FRONTIER INVESTMENT HOLDINGS, INC.**

Signature and Title **AURORA T. CALDERON**
Director/Treasurer/Authorized Signatory

Date May 15, 2023

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

Date May 15, 2023

Annex "A"

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**MARCH 31, 2023 AND DECEMBER 31, 2022**
***(In Millions)***

## ASSETS

| | 2023 Unaudited | 2022 Audited |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents (Notes 9 and 10) | ₱ **245,687** | ₱ 320,860 |
| Trade and other receivables - net (Notes 2, 5, 9 and 10) | **226,381** | 238,661 |
| Inventories | **182,614** | 190,204 |
| Current portion of biological assets - net | **3,674** | 3,418 |
| Prepaid expenses and other current assets (Notes 2, 5, 9 and 10) | **130,590** | 134,329 |
| Total Current Assets | **788,946** | 887,472 |
| Noncurrent Assets | | |
| Investments and advances - net | **34,284** | 32,585 |
| Investments in equity and debt instruments (Notes 5, 9 and 10) | **18,702** | 18,678 |
| Property, plant and equipment - net (Note 6) | **748,452** | 736,570 |
| Right-of-use assets - net | **131,989** | 133,382 |
| Investment property - net | **78,482** | 79,038 |
| Biological assets - net of current portion | **2,821** | 2,671 |
| Goodwill - net | **173,953** | 173,987 |
| Other intangible assets - net | **365,624** | 355,617 |
| Deferred tax assets | **20,950** | 23,632 |
| Other noncurrent assets - net (Notes 2, 5, 9 and 10) | **106,312** | 99,991 |
| Total Noncurrent Assets | **1,681,569** | 1,656,151 |
| | ₱ **2,470,515** | ₱ 2,543,623 |

## LIABILITIES AND EQUITY

| | 2023 Unaudited | 2022 Audited |
|---|---|---|
| Current Liabilities | | |
| Loans payable (Notes 5, 9 and 10) | ₱ **220,347** | ₱ 271,052 |
| Accounts payable and accrued expenses (Notes 2, 5, 9 and 10) | **220,525** | 228,708 |
| Lease liabilities - current portion (Notes 5, 9 and 10) | **21,919** | 21,983 |
| Income and other taxes payable | **46,731** | 38,633 |
| Dividends payable (Note 8) | **3,732** | 3,522 |
| Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10) | **106,135** | 170,084 |
| Total Current Liabilities | **619,389** | 733,982 |
| Noncurrent Liabilities | | |
| Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10) | **956,030** | 918,164 |
| Lease liabilities - net of current portion (Notes 9 and 10) | **49,430** | 55,506 |
| Deferred tax liabilities | **71,061** | 69,978 |
| Other noncurrent liabilities (Notes 5, 9 and 10) | **36,961** | 37,686 |
| Total Noncurrent Liabilities | **1,113,482** | 1,081,334 |
| Equity | | |
| Equity Attributable to Equity Holders of the Parent Company | | |
| Capital stock - common | **490** | 490 |
| Capital stock - preferred | **260** | 260 |
| Additional paid-in capital | **120,501** | 120,501 |
| Capital securities | **75,732** | 75,732 |
| Equity reserves | **4,688** | 4,953 |
| Retained earnings: | | |
| Appropriated | **34,093** | 28,272 |
| Unappropriated | **42,032** | 41,647 |
| Treasury stock | **(76,780)** | (76,780) |
| | **201,016** | 195,075 |
| Non-controlling Interests (Note 2) | **536,628** | 533,232 |
| Total Equity | **737,644** | 728,307 |
| | ₱ **2,470,515** | ₱ 2,543,623 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**Chief Finance Officer**

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE PERIODS ENDED MARCH 31, 2023 AND 2022**
***(In Millions, Except Per Share Data)***

| | | 2023 Unaudited | | 2022 Unaudited |
|---|---|---|---|---|
| SALES (Note 3) | ₱ | **346,716** | ₱ | 316,756 |
| COST OF SALES | | **290,438** | | 264,786 |
| GROSS PROFIT | | **56,278** | | 51,970 |
| SELLING AND ADMINISTRATIVE EXPENSES | | **(21,636)** | | (19,917) |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | | **(21,590)** | | (12,031) |
| INTEREST INCOME | | **3,468** | | 1,038 |
| EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES | | **653** | | 449 |
| GAIN ON SALE OF INVESTMENT AND PROPERTY AND EQUIPMENT (Note 2) | | **2,445** | | 2 |
| OTHER INCOME (CHARGES) - Net (Note 4) | | **10,212** | | (2,281) |
| INCOME BEFORE INCOME TAX | | **29,830** | | 19,230 |
| INCOME TAX EXPENSE | | **9,978** | | 6,208 |
| NET INCOME | ₱ | **19,852** | ₱ | 13,022 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱ | **6,360** | ₱ | 1,991 |
| Non-controlling interests | | **13,492** | | 11,031 |
| | ₱ | **19,852** | ₱ | 13,022 |
| Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7) | ₱ | **15.57** | ₱ | 4.80 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**Chief Finance Officer**

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE PERIODS ENDED MARCH 31, 2023 AND 2022**
***(In Millions)***

| | 2023 Unaudited | 2022 Unaudited |
|---|---|---|
| **NET INCOME** | ₱ 19,852 | ₱ 13,022 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS** | | |
| REMEASUREMENT LOSS ON NET DEFINED BENEFIT RETIREMENT PLAN | (6) | (4) |
| INCOME TAX BENEFIT | 1 | 1 |
| NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | 25 | 3 |
| INCOME TAX EXPENSE | (7) | - |
| SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net | - | 7 |
| | 13 | 7 |
| **ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** | | |
| NET GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | (1,366) | 905 |
| NET GAIN (LOSS) ON CASH FLOW HEDGES | (26) | 365 |
| INCOME TAX BENEFIT (EXPENSE) | 10 | (199) |
| SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net | 47 | (117) |
| | (1,335) | 954 |
| **OTHER COMPREHENSIVE INCOME (LOSS) -** Net of tax | (1,322) | 961 |
| **TOTAL COMPREHENSIVE INCOME -** Net of tax | ₱ 18,530 | ₱ 13,983 |
| **Attributable to:** | | |
| Equity holders of the Parent Company | ₱ 6,280 | ₱ 2,306 |
| Non-controlling interests | 12,250 | 11,677 |
| | ₱ 18,530 | ₱ 13,983 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**Chief Finance Officer**

# TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE PERIODS ENDED MARCH 31, 2023 AND 2022
*(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 | Redeemable 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 at January 1, 2023 (Audited)** | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ 25,158 | ₱ 50,574 | ₱ (5,646) | ₱ (170) | ₱ 1,416 | ₱ (711) | ₱ 10,064 | ₱ 28,272 | ₱ 41,647 | ₱ (28,457) | ₱ (48,323) | ₱ 195,075 | ₱ 533,232 | ₱ 728,307 |
| Net loss on exchange differences on translation of foreign operations | - | - | - | - | - | - | - | - | (113) | - | - | - | - | - | (113) | (1,253) | (1,366) |
| Share in other comprehensive income of associates and joint ventures - net | - | - | - | - | - | - | - | 31 | 1 | - | - | - | - | - | 32 | 15 | 47 |
| Net loss on cash flow hedges, net of tax | - | - | - | - | - | - | (7) | - | - | - | - | - | - | - | (7) | (9) | (16) |
| Net gain on financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | 11 | - | - | - | - | - | - | 11 | 7 | 18 |
| Remeasurement loss on net defined benefit retirement plan | - | - | - | - | - | (3) | - | - | - | - | - | - | - | - | (3) | (2) | (5) |
| Other comprehensive income (loss) | - | - | - | - | - | (3) | (7) | 42 | (112) | - | - | - | - | - | (80) | (1,242) | (1,322) |
| Net income | - | - | - | - | - | - | - | - | - | - | - | 6,360 | - | - | 6,360 | 13,492 | 19,852 |
| Total comprehensive income (loss) | - | - | - | - | - | (3) | (7) | 42 | (112) | - | - | 6,360 | - | - | 6,280 | 12,250 | 18,530 |
| Net addition (reduction) to non-controlling interests and others | - | - | - | - | - | - | - | - | (191) | 6 | - | (154) | - | - | (339) | (994) | (1,333) |
| Appropriations - net | - | - | - | - | - | - | - | - | - | - | 5,821 | (5,821) | - | - | - | - | - |
| Cash dividends and distributions: | | | | | | | | | | | | | | | | | |
| Common | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,786) | (3,786) |
| Preferred | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,002) | (1,002) |
| Senior perpetual capital securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,072) | (3,072) |
| **As at March 31, 2023 (Unaudited)** | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ 25,158 | ₱ 50,574 | ₱ (5,649) | ₱ (177) | ₱ 1,458 | ₱ (1,014) | ₱ 10,070 | ₱ 34,093 | ₱ 42,032 | ₱ (28,457) | ₱ (48,323) | ₱ 201,016 | ₱ 536,628 | ₱ 737,644 |
| | | | | | | | | | | | | | | | | | |
| As at January 1, 2022 (Audited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ 25,158 | ₱ - | ₱ (2,658) | ₱ (352) | ₱ 1,489 | ₱ (2,213) | ₱ 10,015 | ₱ 25,570 | ₱ 59,856 | ₱ (28,457) | ₱ (48,323) | ₱ 161,336 | ₱ 549,739 | ₱ 711,075 |
| Net gain on exchange differences on translation of foreign operations | - | - | - | - | - | - | - | - | 290 | - | - | - | - | - | 290 | 615 | 905 |
| Share in other comprehensive loss of associates and joint ventures - net | - | - | - | - | - | - | - | (70) | (4) | - | - | - | - | - | (74) | (36) | (110) |
| Net gain on cash flow hedges, net of tax | - | - | - | - | - | - | 99 | - | - | - | - | - | - | - | 99 | 67 | 166 |
| Net gain on financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | 1 | - | - | - | - | - | - | 1 | 2 | 3 |
| Remeasurement loss on net defined benefit retirement plan | - | - | - | - | - | (1) | - | - | - | - | - | - | - | - | (1) | (2) | (3) |
| Other comprehensive income (loss) | - | - | - | - | - | (1) | 99 | (69) | 286 | - | - | - | - | - | 315 | 646 | 961 |
| Net income | - | - | - | - | - | - | - | - | - | - | - | 1,991 | - | - | 1,991 | 11,031 | 13,022 |
| Total comprehensive income (loss) | - | - | - | - | - | (1) | 99 | (69) | 286 | - | - | 1,991 | - | - | 2,306 | 11,677 | 13,983 |
| Net addition (reduction) to non-controlling interests and others | - | - | - | - | - | - | - | - | - | (22) | - | 171 | - | - | 149 | (706) | (557) |
| Appropriations - net | - | - | - | - | - | - | - | - | - | - | 1,762 | (1,762) | - | - | - | - | - |
| Cash dividends and distributions (Note 8): | | | | | - | | | | | | | | | | - | | |
| Common | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,540) | (2,540) |
| Preferred | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,198) | (1,198) |
| Senior perpetual capital securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,892) | (2,892) |
| Redeemable perpetual securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (50) | (50) |
| As at March 31, 2022 (Unaudited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ 25,158 | ₱ - | ₱ (2,659) | ₱ (253) | ₱ 1,420 | ₱ (1,927) | ₱ 9,993 | ₱ 27,332 | ₱ 60,256 | ₱ (28,457) | ₱ (48,323) | ₱ 163,791 | ₱ 554,030 | ₱ 717,821 |

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE PERIODS ENDED MARCH 31, 2023 AND 2022**
***(In Millions)***

| | 2023 Unaudited | 2022 Unaudited |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | ₱ 29,830 | ₱ 19,230 |
| Adjustments for: | | |
| Interest expense and other financing charges | 21,590 | 12,031 |
| Depreciation, amortization and others - net (Notes 4 and 6) | 4,408 | 14,183 |
| Interest income | (3,468) | (1,038) |
| Gain on sale of investment and property and equipment (Note 2) | (2,445) | (2) |
| Equity in net earnings of associates and joint ventures | (653) | (449) |
| Operating income before working capital changes | 49,262 | 43,955 |
| Changes in noncash current assets, certain current liabilities and others | 19,687 | (10,577) |
| Cash generated from operations | 68,949 | 33,378 |
| Interest and other financing charges paid | (21,764) | (11,402) |
| Income taxes paid | (2,382) | (2,063) |
| Net cash flows provided by operating activities | 44,803 | 19,913 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to property, plant and equipment (Note 6) | (16,115) | (13,139) |
| Additions to intangible assets | (11,850) | (7,925) |
| Increase in other noncurrent assets and others | (7,169) | (2,324) |
| Additions to advances to contractors and suppliers | (2,290) | (2,934) |
| Additions to investments and advances | (998) | (389) |
| Additions to investment property | (934) | (440) |
| Additions to investments in debt instruments | (130) | (80) |
| Interest received | 2,791 | 910 |
| Proceeds from disposal of investments in debt instruments | 125 | 80 |
| Proceeds from sale of property and equipment and trademarks | 82 | 57 |
| Dividends received | 14 | 17 |
| Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of | - | 307 |
| Net cash flows used in investing activities | (36,474) | (25,860) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Short-term borrowings | 254,164 | 263,893 |
| Long-term borrowings | 65,352 | 51,948 |
| Payments of: | | |
| Short-term borrowings | (304,369) | (279,883) |
| Long-term borrowings | (79,041) | (12,986) |
| Cash dividends and distributions paid to non-controlling shareholders | (7,650) | (8,119) |
| Payments of lease liabilities | (5,356) | (7,226) |
| Repurchase of capital securities of a subsidiary | (1,142) | - |
| Decrease in non-controlling interests' share in the net assets of subsidiaries and others | (1,161) | (648) |
| Net cash flows provided by (used in) financing activities | (79,203) | 6,979 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (4,299) | 685 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (75,173) | 1,717 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 320,860 | 300,953 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | ₱ 245,687 | ₱ 302,670 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**Chief Finance Officer**

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**TRADE AND OTHER RECEIVABLES**
**MARCH 31, 2023**
**(In Millions)**

| | Total | Current | Past Due 1 - 30 Days | Past Due 31 - 60 Days | Past Due 61 - 90 Days | Past Due Over 90 Days |
|---|---|---|---|---|---|---|
| Trade | P 160,375 | P 78,165 | P 11,471 | P 8,698 | P 6,807 | P 55,234 |
| Non-trade | 69,588 | 35,307 | 508 | 1,184 | 2,783 | 29,806 |
| Amounts Owed by Related Parties | 9,238 | 6,546 | 605 | 314 | 254 | 1,519 |
| Total | 239,201 | **P 120,018** | **P 12,584** | **P 10,196** | **P 9,844** | **P 86,559** |
| Less allowance for impairment losses | 12,820 | | | | | |
| Net | **P 226,381** | | | | | |

## TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

## SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**(Amounts in Millions, Except Per Share Data)**

### 1. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*, and do not include all the information required in the annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at December 31, 2022.

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on May 11, 2023.

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 adopted in the preparation of the interim consolidated financial statements of the Group are consistent with those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

The Financial and Sustainability Reporting Standards Council (FSRSC) approved the adoption of a number of new and amendments to standards as part of Philippine Financial Reporting Standards (PFRS).

*Adoption of Amendments to Standards*

The Group has adopted the following amendments to standards effective January 1, 2023 and accordingly, changed its accounting policies in the following areas:

- 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 accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both 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 definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.

- Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements,* 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 include guidance and additional examples on the application of materiality to accounting policy disclosures.

- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The adoption of the amendments to standards did not have a material effect on the interim consolidated financial statements.

*New and Amendments to Standards Not Yet Adopted*

A number of new and amendments to standards are effective for annual periods beginning after January 1, 2023 and have not been applied in preparing the interim consolidated financial statements. None of these are expected to have a significant effect on the interim consolidated financial statements.

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

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16, *Leases*). The amendments confirm the following:

  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale and leaseback transaction.

  - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right-of-use asset it retains.

  A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

  The amendments are effective for annual reporting periods beginning or after January 1, 2024, with earlier application permitted. Under PAS 8, the amendments apply retrospectively to sale and leaseback transactions entered into or after the date of initial adoption of PFRS 16.

- Classification of Liabilities as Current or Noncurrent - 2020 Amendments and Noncurrent Liabilities with Covenants - 2022 Amendments (Amendments to PAS 1). 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 require that the right must have substance and exist at the reporting date;

  - clarified that only covenants with which the entity must comply on or before the reporting date affect the classification of a liability as current or noncurrent and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;

  - provided additional disclosure requirements for noncurrent liabilities subject to conditions within 12 months after the reporting period to enable the assessment of the risk that the liability could become repayable within 12 months; and

  - clarified that settlement of a liability includes transferring an entity'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, 2024, with early application permitted.

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

  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 policyholders, 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 December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB). 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9, *Financial Instruments*, will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 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.

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

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

## 2. Sale of Investment in Asia-Alliance Mining Resources Corp. (AAMRC) by Clariden Holdings, Inc. (CHI)

On February 10, 2023, the Parent Company through CHI entered into a Deed of Absolute Sale of Shares with a third party for the sale of 1,140,000 common shares of AAMRC representing 60% of the issued and outstanding common stock of AAMRC for a total consideration of P2,661, of which P184 were collected as guarantee deposits in 2022 presented as part of “Accounts payable and accrued expenses” account in the December 2022 consolidated statement of financial position. The balance of the consideration which will be collected in four equal annual installments was presented as part of “Trade and other receivables - net” and “Other noncurrent assets - net” accounts in the March 2023 consolidated statement of financial position.

Consequently, AAMRC was deconsolidated from the Group. The Group derecognized AAMRC’s assets (P325) which were classified as assets held for sale under “Prepaid and other current assets” account (including mining rights) and liabilities (P3) classified as liabilities directly associated with assets held for sale under “Accounts payable and other accrued expenses” account in the December 2022 consolidated statement of financial position, and the carrying amount of non-controlling interest (P5) as at the deconsolidation date. The guarantee deposits previously recognized under “Accounts payable and accrued expenses” formed part of the consideration received.

The Group recognized a gain on the sale amounting to P2,490, presented as part of “Gain on sale of investment and property and equipment” in the March 2023 consolidated statement of income.

## 3. Segment Information

Operating Segments

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

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

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

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

The energy segment sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, including Manila Electric Company, 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 cement segment is primarily engaged in the manufacturing, marketing and distribution of cement products.

The mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

<u>Inter-segment Transactions</u>

Segment revenues, expenses and performance include sales and purchases between operating segments. Such transactions are eliminated in consolidation.

## Operating Segments

Financial information about reportable segments as at and for the periods ended March 31, 2023, December 31, 2022 and March 31, 2022 follows:

| | Food and Beverage | | Packaging | | Energy | | Fuel and Oil | | Infrastructure | | Cement | | Real Estate and Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 |
| **Sales** | | | | | | | | | | | | | | | | | | |
| External sales | **P93,165** | P83,014 | **P6,644** | P6,773 | **P37,751** | P41,647 | **P184,652** | P169,606 | **P8,169** | P6,234 | **P10,170** | P3,222 | **P6,165** | P6,260 | **P -** | P - | **P346,716** | P316,756 |
| Inter-segment sales | **21** | 40 | **3,551** | 1,275 | **3,373** | 1,389 | **4,101** | 2,725 | **1** | 1 | **170** | - | **9,157** | 7,987 | **(20,374)** | (13,417) | **-** | - |
| Total sales | **P93,186** | P83,054 | **P10,195** | P8,048 | **P41,124** | P43,036 | **P188,753** | P172,331 | **P8,170** | P6,235 | **P10,340** | P3,222 | **P15,322** | P14,247 | **(P20,374)** | (P13,417) | **P346,716** | P316,756 |
| **Result** | | | | | | | | | | | | | | | | | | |
| Segment result | **P11,503** | P12,622 | **P803** | P613 | **P7,376** | P6,553 | **P8,410** | P8,423 | **P4,459** | P2,435 | **P1,333** | P293 | **P583** | P783 | **P175** | P331 | **P34,642** | P32,053 |
| Interest expense and other financing charges | | | | | | | | | | | | | | | | | **(21,590)** | (12,031) |
| Interest income | | | | | | | | | | | | | | | | | **3,468** | 1,038 |
| Equity in net earnings of associates and joint ventures | | | | | | | | | | | | | | | | | **653** | 449 |
| Gain on sale of investment and property and equipment | | | | | | | | | | | | | | | | | **2,445** | 2 |
| Other income (charges) - net | | | | | | | | | | | | | | | | | **10,212** | (2,281) |
| Income tax expense | | | | | | | | | | | | | | | | | **(9,978)** | (6,208) |
| **Net Income** | | | | | | | | | | | | | | | | | **P19,852** | P13,022 |
| | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 |
| **Other Information** | | | | | | | | | | | | | | | | | | |
| Segment assets | **P299,948** | P292,796 | **P53,469** | P55,980 | **P660,562** | P658,647 | **P432,238** | P451,765 | **P368,443** | P356,711 | **P115,164** | P117,530 | **P554,368** | P624,559 | **(P353,277)** | (P354,355) | **P2,130,915** | P2,203,633 |
| Investments in and advances to associates and joint ventures | **-** | - | **-** | - | **8,824** | 7,855 | **12** | 11 | **5,534** | 5,229 | **2,218** | 2,068 | **17,883** | 17,610 | **(187)** | (188) | **34,284** | 32,585 |
| Goodwill and trademarks and brand names | | | | | | | | | | | | | | | | | **264,183** | 264,219 |
| Other assets | | | | | | | | | | | | | | | | | **20,183** | 19,554 |
| Deferred tax assets | | | | | | | | | | | | | | | | | **20,950** | 23,632 |
| **Consolidated Total Assets** | | | | | | | | | | | | | | | | | **P2,470,515** | P2,543,623 |

*Forward*

| | Food and Beverage | | Packaging | | Energy | | Fuel and Oil | | Infrastructure | | Cement | | Real Estate and Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | December 2022 | **March 2023** | **December 2022** | **March 2023** | December 2022 |
| Segment liabilities | **P65,179** | P69,749 | **P9,207** | P9,802 | **P73,531** | P73,768 | **P72,864** | P72,756 | **P74,668** | P66,382 | **P37,932** | P39,115 | **P118,584** | P123,325 | **(P200,067)** | (P193,573) | **P251,898** | P261,324 |
| Loans payable | | | | | | | | | | | | | | | | | **220,347** | 271,052 |
| Long-term debt | | | | | | | | | | | | | | | | | **1,062,165** | 1,088,248 |
| Lease liabilities | | | | | | | | | | | | | | | | | **71,349** | 77,489 |
| Income and other taxes payable | | | | | | | | | | | | | | | | | **46,731** | 38,633 |
| Dividends payable and others | | | | | | | | | | | | | | | | | **9,320** | 8,592 |
| Deferred tax liabilities | | | | | | | | | | | | | | | | | **71,061** | 69,978 |
| **Consolidated Total Liabilities** | | | | | | | | | | | | | | | | | **P1,732,871** | P1,815,316 |

## 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 for the periods ended March 31, 2023 and 2022:

| | Food and Beverage | | Packaging | | Energy | | Fuel and Oil | | Infrastructure | | Cement | | Real Estate and Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 | **March 2023** | March 2022 |
| **Timing of recognition** | | | | | | | | | | | | | | | | |
| Sales recognized at point in time | **P93,162** | P83,010 | **P6,419** | P6,637 | **P -** | P - | **P184,652** | P169,607 | **P -** | P - | **P10,170** | P3,222 | **P5,304** | P5,589 | **P299,707** | P268,065 |
| Sales recognized over time | **3** | 4 | **225** | 136 | **37,751** | 41,647 | **-** | - | **8,169** | 6,234 | **-** | - | **861** | 670 | **47,009** | 48,691 |
| **Total external sales** | **P93,165** | P83,014 | **P6,644** | P6,773 | **P37,751** | P41,647 | **P184,652** | P169,607 | **P8,169** | P6,234 | **P10,170** | P3,222 | **P6,165** | P6,259 | **P346,716** | P316,756 |

## 4. Other Income (Charges) - Net

Other income (charges) - net consists of:

| | | March 31 | |
|---|---|---|---|
| | *Note* | **2023** | 2022 |
| Construction revenue | | **P12,613** | P7,765 |
| Gain (loss) on foreign exchange - net | *8* | **10,592** | (2,517) |
| Miscellaneous gain | | **1,530** | - |
| Construction costs | | **(12,613)** | (7,765) |
| Loss on derivatives - net | *9* | **(2,177)** | (215) |
| Others | | **267** | 451 |
| | | **P10,212** | (P2,281) |

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, water and power concession rights as at reporting date.

Miscellaneous gain represents the income recognized by Ginebra San Miguel Inc. from the assignment of product rights in 2023.

"Others" consist of rent income, commission income, insurance claims, changes in fair value of financial assets at fair value through profit or loss (FVPL), reversal of impairment, loss on sale of La Pacita trademarks, casualty loss and expenses of closed facilities.

## 5. Related Party Disclosures

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company), certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. The Parent Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the total consolidated assets based on its latest audited financial statements.

Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at March 31, 2023 and December 31, 2022:

| | Year | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Shareholders of the Parent Company | **March 31, 2023** | **P -** | **P -** | **P -** | **P221** | On demand; | Unsecured |
| | December 31, 2022 | - | - | - | 221 | non-interest bearing | |
| Retirement Plans | **March 31, 2023** | **7** | **-** | **3,152** | **46** | On demand; | Unsecured; |
| | December 31, 2022 | 23 | - | 3,480 | - | non-interest bearing | no impairment |
| | **March 31, 2023** | **58** | **-** | **4,137** | **-** | On demand; | Unsecured; |
| | December 31, 2022 | 246 | - | 4,127 | - | interest bearing | no impairment |
| Associates | **March 31, 2023** | **558** | **-** | **950** | **57** | On demand; | Unsecured; |
| | December 31, 2022 | 1,970 | 11 | 888 | 74 | non-interest bearing | no impairment |
| | **March 31, 2023** | **312** | **-** | **12,331** | **27,000** | Less than 1 | Unsecured and |
| | December 31, 2022 | 6 | - | 12,346 | 23,223 | to 12 years; interest bearing | secured; no impairment |
| Joint Ventures | **March 31, 2023** | **19** | **15** | **125** | **7** | On demand; | Unsecured; |
| | December 31, 2022 | 63 | 471 | 117 | 17 | non-interest bearing | no impairment |
| | **March 31, 2023** | **-** | **-** | **621** | **-** | On demand; | Unsecured; |
| | December 31, 2022 | - | - | 621 | - | interest bearing | with impairment |
| | **March 31, 2023** | **15** | **-** | **1,476** | **-** | Less than 1 | Unsecured; |
| | December 31, 2022 | 59 | - | 1,135 | - | to 10.5 years; interest bearing | no impairment |
| Shareholders in Subsidiaries | **March 31, 2023** | **4** | **137** | **91** | **1,280** | On demand; | Unsecured; |
| | December 31, 2022 | 184 | 890 | 91 | 2,658 | non-interest bearing | no impairment |
| Others | **March 31, 2023** | **7** | **1,964** | **30** | **24** | On demand; | Unsecured; |
| | December 31, 2022 | 6,091 | 4,284 | 32 | 6 | non-interest bearing | no impairment |
| **Total** | **March 31, 2023** | **P980** | **P2,116** | **P22,913** | **P28,635** | | |
| Total | December 31, 2022 | P8,642 | P5,656 | P22,837 | P26,199 | | |

1. Revenue consists of sale of power, fuel and other products and services to related parties.

2. Purchases consist of purchase of inventories, power and other products and services from related parties.

3. Amounts owed by related parties consist of current and noncurrent receivable and share in expenses.

   a. Amounts owed by related parties include investments in debt securities under investment agreement with Bank of Commerce (BOC) for a total amount of P12,250 as at March 31, 2023 and December 31, 2022, presented as part of "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts in the consolidated statements of financial position.

   b. 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 statements of financial position. Allowance for impairment losses pertaining to these receivables amounted to P621 as at March 31, 2023 and December 31, 2022.

4. Amounts owed to related parties consist of trade payables, professional fees and leases. As at March 31, 2023 and December 31, 2022, amounts owed to a related party for the lease of office space presented as part of "Lease liabilities - current portion" amounted to P4 and P6, respectively.

5. The amounts owed to associates include interest bearing loans payable to BOC presented as part of “Loans payable” account amounting to P10,394 and P11,520 and “Long-term debt” account amounting to P16,606 and P11,703 in the consolidated statements of financial position as at March 31, 2023 and December 31, 2022, respectively.

   The amounts owed to associates include syndicated project finance loans amounting to P15,816 and P10,913 as at March 31, 2023 and December 31, 2022, respectively, which were secured by certain property, plant and equipment and other intangible assets.

There were no known transactions with parties that fall outside the definition "related parties" under PAS 24, *Related Party Disclosures*, but with whom Top Frontier or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

## 6. Property, Plant and Equipment

Property, plant and equipment consist of:

**March 31, 2023 and December 31, 2022**

| | 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, 2022 (Audited) | P73,125 | P69,520 | P154,125 | P188,530 | P20,093 | P208,389 | P8,708 | P5,670 | P144,458 | P872,618 |
| Additions | 950 | 1,036 | 48,967 | 2,119 | 265 | 3,642 | 224 | 369 | 67,078 | 124,650 |
| Acquisition of subsidiaries | 11,708 | 6,603 | - | - | - | 18,059 | 4 | - | 595 | 36,969 |
| Disposals/retirement | (38) | (118) | (465) | - | (524) | (2,160) | (8) | - | (59) | (3,372) |
| Reclassifications and others | (3,615) | 7,837 | 932 | 2,971 | 319 | 12,093 | 1,161 | (416) | (18,100) | 3,182 |
| Currency translation adjustments | 129 | 403 | - | 822 | 330 | 1,460 | 10 | - | 58 | 3,212 |
| December 31, 2022 (Audited) | 82,259 | 85,281 | 203,559 | 194,442 | 20,483 | 241,483 | 10,099 | 5,623 | 194,030 | 1,037,259 |
| Additions | 93 | 97 | 61 | 45 | 32 | 1,326 | 9 | - | 14,452 | 16,115 |
| Disposals/retirement | - | (3) | (76) | - | (80) | (151) | - | - | - | (310) |
| Reclassifications and others | 815 | 1,272 | 2 | 275 | 77 | 2,321 | 9 | - | (692) | 4,079 |
| Currency translation adjustments | (66) | (244) | - | (644) | (253) | (762) | (17) | - | (17) | (2,003) |
| **March 31, 2023 (Unaudited)** | **83,101** | **86,403** | **203,546** | **194,118** | **20,259** | **244,217** | **10,100** | **5,623** | **207,773** | **1,055,140** |
| **Accumulated Depreciation** | | | | | | | | | | |
| January 1, 2022 (Audited) | 4,610 | 25,371 | 24,116 | 64,514 | 14,753 | 120,982 | 2,479 | 4,973 | - | 261,798 |
| Depreciation | 484 | 2,331 | 7,575 | 5,543 | 1,108 | 10,135 | 432 | 12 | - | 27,620 |
| Disposals/retirement | (13) | (70) | (133) | - | (518) | (1,437) | (2) | - | - | (2,173) |
| Reclassifications | (3) | (302) | - | - | - | (2,096) | 37 | (57) | - | (2,421) |
| Currency translation adjustments | 2 | 207 | - | 346 | 209 | 878 | 3 | - | - | 1,645 |
| December 31, 2022 (Audited) | 5,080 | 27,537 | 31,558 | 70,403 | 15,552 | 128,462 | 2,949 | 4,928 | - | 286,469 |
| Depreciation | 128 | 668 | 2,077 | 1,412 | 252 | 2,936 | 116 | 1 | - | 7,590 |
| Disposals/retirement | - | (3) | (13) | - | (76) | (122) | - | - | - | (214) |
| Reclassifications | (21) | (172) | - | - | 4 | 75 | - | (16) | - | (130) |
| Currency translation adjustments | 1 | (118) | - | (277) | (157) | (456) | (3) | - | - | (1,010) |
| **March 31, 2023 (Unaudited)** | **5,188** | **27,912** | **33,622** | **71,538** | **15,575** | **130,895** | **3,062** | **4,913** | **-** | **292,705** |
| **Accumulated Impairment Losses** | | | | | | | | | | |
| January 1, 2022 (Audited) | 38 | 3,007 | - | - | 1 | 10,221 | 25 | 573 | - | 13,865 |
| Impairment | - | | - | - | - | 105 | - | - | - | 105 |
| Disposals/retirement | - | (4) | - | - | - | (4) | - | - | - | (8) |
| Reclassification | (38) | (1) | - | - | (1) | - | - | - | - | (40) |
| Currency translation adjustments | - | 27 | - | - | - | 271 | - | - | - | 298 |
| December 31, 2022 (Audited) | - | 3,029 | - | - | - | 10,593 | 25 | 573 | - | 14,220 |
| Reversal of impairment | - | - | - | - | - | (5) | - | - | - | (5) |
| Currency translation adjustments | - | (47) | - | - | - | (185) | - | - | - | (232) |
| **March 31, 2023 (Unaudited)** | - | 2,982 | - | - | - | 10,403 | 25 | 573 | - | 13,983 |
| **Carrying Amount** | | | | | | | | | | |
| December 31, 2022 (Audited) | P77,179 | P54,715 | P172,001 | P124,039 | P4,931 | P102,428 | P7,125 | P122 | P194,030 | P736,570 |
| **March 31, 2023 (Unaudited)** | **P77,913** | **P55,509** | **P169,924** | **P122,580** | **P4,684** | **P102,919** | **P7,013** | **P137** | **P207,773** | **P748,452** |

## March 31, 2022

| | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| January 1, 2022 (Audited) | P43,895 | P65,036 | P154,126 | P188,532 | P20,092 | P200,667 | P8,580 | P144,461 | P825,389 |
| Additions | 85 | 9 | 155 | 77 | 34 | 501 | 6 | 12,270 | 13,137 |
| Disposals/retirement | (11) | (14) | - | - | (13) | (280) | - | - | (318) |
| Reclassifications and others | 10 | 513 | 636 | 2,252 | 130 | 986 | 449 | (1,881) | 3,095 |
| Currency translation adjustments | 35 | 147 | - | 183 | 72 | 672 | 24 | (94) | 1,039 |
| March 31, 2022 (Unaudited) | 44,014 | 65,691 | 154,917 | 191,044 | 20,315 | 202,546 | 9,059 | 154,756 | 842,342 |
| Accumulated Depreciation | | | | | | | | | |
| January 1, 2022 (Audited) | 3,948 | 21,262 | 24,119 | 64,516 | 14,751 | 112,353 | 2,348 | - | 243,297 |
| Depreciation | 113 | 447 | 1,669 | 1,451 | 266 | 2,424 | 106 | - | 6,476 |
| Disposals/retirement | (11) | (12) | - | - | (11) | (231) | - | - | (265) |
| Reclassifications | (5) | (161) | - | - | - | (101) | 30 | - | (237) |
| Currency translation adjustments | 1 | 48 | - | 75 | 54 | 380 | 4 | - | 562 |
| March 31, 2022 (Unaudited) | 4,046 | 21,584 | 25,788 | 66,042 | 15,060 | 114,825 | 2,488 | - | 249,833 |
| Accumulated Impairment Losses | | | | | | | | | - |
| January 1, 2022 (Audited) | 38 | 3,395 | - | - | 1 | 11,023 | 26 | - | 14,483 |
| Reversal of impairment | - | - | - | - | (1) | (5) | - | - | (6) |
| Currency translation adjustments | - | 62 | - | - | - | 173 | 1 | - | 236 |
| March 31, 2022 (Unaudited) | 38 | 3,457 | - | - | - | 11,191 | 27 | - | 14,713 |
| Carrying Amount | | | | | | | | | |
| March 31, 2022 (Unaudited) | P39,930 | P40,650 | P129,129 | P125,002 | P5,255 | P76,530 | P6,544 | P154,756 | P577,796 |

Depreciation charged to operations amounted to P7,590 and P6,476 for the periods ended March 31, 2023 and 2022, 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.

As at March 31, 2023 and December 31, 2022, certain property, plant and equipment amounting to P128,891 and P126,261, respectively, are pledged as security for syndicated project finance loans.

## 7. Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Basic and diluted EPS is computed as follows:

| | March 31 | |
|---|---|---|
| | **2023** | 2022 |
| Net income attributable to equity holders of the Parent Company | **P6,360** | P1,991 |
| Less: Distributions to capital securities for the period | **1,218** | 404 |
| Net income attributable to common shareholders of the Parent Company (a) | **P5,142** | P1,587 |
| Weighted average number of common shares outstanding (in millions) - basic and diluted (b) | **330** | 330 |
| Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b) | **P15.57** | P4.80 |

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

As at March 31, 2023 and 2022, the Parent Company has no dilutive debt or equity instruments.

## 8. Cash Dividends

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

<u>2022</u>

| Date of Declaration | Date of Record | Date of Payment | Dividend per Share |
|---|---|---|---|
| March 10, 2022 | March 10, 2022 | March 11, 2022 | P139.50 |

## 9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies
The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

| **March 31, 2023** | **<1 Year** | **1-2 Years** | **>2-3 Years** | **>3-4 Years** | **>4-5 Years** | **>5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | | |
| Philippine Peso-denominated | **P54,733** | **P102,780** | **P69,343** | **P93,009** | **P114,303** | **P136,504** | **P570,672** |
| Interest rate | **3.284%-12.00%** | **3.284%-9.635%** | **3.284%-9.635%** | **3.284%-9.635%** | **3.284%-9.635%** | **3.5483%-9.635%** | |
| Foreign currency-denominated (expressed in Philippine Peso) | **1,248** | **1,305** | **1,366** | **1,428** | **1,492** | **11,346** | **18,185** |
| Interest rate | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | |
| **Floating Rate** | | | | | | | |
| Philippine Peso-denominated | **2,873** | **17,940** | **1,825** | **1,867** | **1,867** | **11,015** | **37,387** |
| Interest rate | **Bloomberg Valuation (BVAL) + margin or applicable reference rate, whichever is higher** | **BVAL + margin or applicable reference rate, whichever is higher** | **BVAL + margin or applicable reference rate, whichever is higher** | **BVAL + margin or applicable reference rate, whichever is higher** | **BVAL + margin or applicable reference rate, whichever is higher** | **BVAL + margin or applicable reference rate, whichever is higher** | |
| Foreign currency-denominated (expressed in Philippine Peso) | **47,906** | **142,465** | **30,024** | **100,679** | **65,634** | **61,870** | **448,578** |
| Interest rate | **(London Interbank Offered Rate (LIBOR)/Secured Overnight Financing Rate (SOFR)/ applicable reference rate + margin** | **LIBOR/SOFR/ applicable reference rate + margin** | **LIBOR/SOFR/ applicable reference rate + margin** | **LIBOR/SOFR/ applicable reference rate + margin** | **LIBOR/SOFR/ applicable reference rate + margin** | **LIBOR/SOFR/ applicable reference rate + margin** | |
| | **P106,760** | **P264,490** | **P102,558** | **P196,983** | **P183,296** | **P220,735** | **P1,074,822** |

| December 31, 2022 | <1 Year | 1-2 Years | >2-3 Years | >3-4 Years | >4-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate | | | | | | | |
| Philippine Peso-denominated | P58,988 | P98,015 | P71,237 | P71,549 | P109,409 | P174,118 | P583,316 |
| Interest rate | 3.284% - 12.00% | 3.284% - 9.635% | 3.284% - 9.635% | 3.284% - 9.635% | 3.3832% - 9.635% | 3.5483% - 9.635% | |
| Foreign currency-denominated (expressed in Philippine Peso) | 7,491 | 1,339 | 1,401 | 1,464 | 1,531 | 11,637 | 24,863 |
| Interest rate | 4.7776% - 5.5959% | 5.5959% | 5.5959% | 5.5959% | 5.5959% | 5.5959% | |
| Floating Rate | | | | | | | |
| Philippine Peso-denominated | 2,002 | 1,122 | 16,335 | 536 | 536 | 8,446 | 28,977 |
| Interest rate | BVAL + margin or applicable reference rate, whichever is higher | BVAL + margin or applicable reference rate, whichever is higher | BVAL + margin or applicable reference rate, whichever is higher | BVAL + margin or applicable reference rate, whichever is higher | BVAL + margin or applicable reference rate, whichever is higher | BVAL + margin or applicable reference rate, whichever is higher | |
| Foreign currency-denominated (expressed in Philippine Peso) | 102,322 | 140,670 | 15,361 | 81,348 | 70,492 | 52,406 | 462,599 |
| Interest rate | LIBOR/SOFR/ applicable reference rate + margin | LIBOR/SOFR/ applicable reference rate + margin | LIBOR/SOFR/ applicable reference rate + margin | LIBOR/SOFR/ applicable reference rate + margin | LIBOR/SOFR/ applicable reference rate + margin | LIBOR/SOFR/ applicable reference rate + margin | |
| | P170,803 | P241,146 | P104,334 | P154,897 | P181,968 | P246,607 | P1,099,755 |

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,215 and P4,916 for the period ended March 31, 2023 and for the year ended December 31, 2022, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

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

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

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

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

- changes in the timing of the hedged transactions.

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

| | **March 31, 2023** | | December 31, 2022 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$2,004** | **P108,965** | US$3,040 | P169,661 |
| Trade and other receivables | **1,082** | **58,778** | 1,163 | 64,843 |
| Prepaid expenses and other current assets | **22** | **1,191** | 99 | 5,525 |
| Noncurrent receivables | **50** | **2,770** | 24 | 1,379 |
| | **3,158** | **171,704** | 4,326 | 241,408 |
| **Liabilities** | | | | |
| Loans payable | **203** | **11,031** | 890 | 49,613 |
| Accounts payable and accrued expenses | **2,676** | **145,501** | 2,735 | 152,547 |
| Long-term debt (including current maturities) | **8,587** | **466,763** | 8,743 | 487,462 |
| Lease liabilities (including current portion) | **571** | **30,990** | 616 | 34,363 |
| Other noncurrent liabilities | **409** | **22,191** | 413 | 22,977 |
| | **12,446** | **676,476** | 13,397 | 746,962 |
| Net foreign currency-denominated monetary liabilities | **(US$9,288)** | **(P504,772)** | (US$9,071) | (P505,554) |

The Group reported net gains (losses) on foreign exchange amounting to P10,592 and (P2,517) for the periods ended March 31, 2023 and 2022, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine Peso against the US dollar as shown in the following table:

| | **US Dollar to Philippine Peso** |
|---|---|
| **March 31, 2023** | **P54.360** |
| December 31, 2022 | 55.755 |
| March 31, 2022 | 51.740 |
| December 31, 2021 | 50.999 |

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

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

| | **P1 Decrease in the US Dollar Exchange Rate** | | **P1 Increase in the US Dollar Exchange Rate** | |
|---|---|---|---|---|
| **March 31, 2023** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P1,561)** | **(P1,634)** | **P1,561** | **P1,634** |
| Trade and other receivables | **(261)** | **(815)** | **261** | **815** |
| Prepaid expenses and other current assets | **(14)** | **(19)** | **14** | **19** |
| Noncurrent receivables | **(48)** | **(38)** | **48** | **38** |
| | **(1,884)** | **(2,506)** | **1,884** | **2,506** |
| Loans payable | **-** | **202** | **-** | **(202)** |
| Accounts payable and accrued expenses | **1,516** | **2,277** | **(1,516)** | **(2,277)** |
| Long-term debt (including current maturities) | **8,541** | **6,702** | **(8,541)** | **(6,702)** |
| Lease liabilities (including current portion) | **486** | **450** | **(486)** | **(450)** |
| Other noncurrent liabilities | **391** | **313** | **(391)** | **(313)** |
| | **10,934** | **9,944** | **(10,934)** | **(9,944)** |
| | **P9,050** | **P7,438** | **(P9,050)** | **(P7,438)** |

| | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| December 31, 2022 | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P2,602) | (P2,401) | P2,602 | P2,401 |
| Trade and other receivables | (284) | (914) | 284 | 914 |
| Prepaid expenses and other current assets | (93) | (76) | 93 | 76 |
| Noncurrent receivables | (22) | (19) | 22 | 19 |
| | (3,001) | (3,410) | 3,001 | 3,410 |
| Loans payable | 600 | 739 | (600) | (739) |
| Accounts payable and accrued expenses | 1,495 | 2,403 | (1,495) | (2,403) |
| Long-term debt (including current maturities) | 8,695 | 6,917 | (8,695) | (6,917) |
| Lease liabilities (including current portion) | 533 | 483 | (533) | (483) |
| Other noncurrent liabilities | 403 | 316 | (403) | (316) |
| | 11,726 | 10,858 | (11,726) | (10,858) |
| | P8,725 | P7,448 | (P8,725) | (P7,448) |

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.

| March 31, 2023 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P245,687** | **P245,687** | **P245,687** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **226,381** | **226,381** | **226,381** | **-** | **-** | **-** |
| Derivative assets (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts) | **2,870** | **2,870** | **1,808** | **839** | **223** | **-** |
| Financial assets at FVPL (included under “Prepaid expenses and other current assets” account) | **1,372** | **1,372** | **1,372** | **-** | **-** | **-** |
| Financial assets at fair value through other comprehensive income (FVOCI) (included under “Investments in equity and debt instruments” account) | **7,099** | **7,325** | **54** | **54** | **916** | **6,301** |
| Financial assets at amortized cost (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts) | **12,143** | **16,871** | **1,369** | **846** | **2,639** | **12,017** |
| Noncurrent receivables and deposits - net (included under “Other noncurrent assets - net” account) | **38,865** | **40,653** | **906** | **12,304** | **19,525** | **7,918** |
| Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts) | **18,260** | **18,260** | **14,233** | **2,472** | **-** | **1,555** |
| **Financial Liabilities** | | | | | | |
| Loans payable | **220,347** | **222,372** | **222,372** | **-** | **-** | **-** |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), asset retirement obligation (ARO), deferred income and other current non-financial liabilities) | **217,462** | **217,462** | **217,462** | **-** | **-** | **-** |
| Derivative liabilities (included under “Accounts payable and accrued expenses” account) | **1,472** | **1,472** | **1,472** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **1,062,165** | **1,322,527** | **168,249** | **314,427** | **573,522** | **266,329** |
| Lease liabilities (including current portion) | **71,349** | **87,440** | **24,554** | **17,265** | **24,792** | **20,829** |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities) | **22,346** | **22,346** | **-** | **6,628** | **3,304** | **12,414** |

| December 31, 2022 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P320,860 | P320,860 | P320,860 | P - | P - | P - |
| Trade and other receivables - net | 238,661 | 238,661 | 238,661 | - | - | - |
| Derivative assets (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts) | 3,624 | 3,624 | 2,486 | 850 | 288 | - |
| Financial assets at FVPL (included under “Prepaid expenses and other current assets” account) | 1,349 | 1,349 | 1,349 | - | - | - |
| Financial assets at FVOCI (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts) | 7,076 | 7,374 | 54 | 54 | 930 | 6,336 |
| Financial assets at amortized cost (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts) | 12,134 | 16,917 | 1,414 | 846 | 2,642 | 12,015 |
| Noncurrent receivables and deposits - net (included under “Other noncurrent assets - net” account) | 36,664 | 36,788 | 923 | 10,436 | 18,404 | 7,025 |
| Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts) | 19,078 | 19,078 | 17,411 | 386 | - | 1,281 |
| Financial Liabilities | | | | | | |
| Loans payable | 271,052 | 272,896 | 272,896 | - | - | - |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities) | 224,435 | 224,435 | 224,435 | - | - | - |
| Derivative liabilities (included under “Accounts payable and accrued expenses” account) | 2,832 | 2,832 | 2,832 | - | - | - |
| Long-term debt (including current maturities) | 1,088,248 | 1,343,923 | 231,504 | 291,910 | 531,319 | 289,190 |
| Lease liabilities (including current portion) | 77,489 | 92,498 | 24,624 | 21,709 | 24,585 | 21,580 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | 22,858 | 22,935 | - | 2,599 | 7,659 | 12,677 |

Credit Risk

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

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

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

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

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

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

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

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

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

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

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

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

| | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | **P243,726** | P318,469 |
| Trade and other receivables - net | **226,381** | 238,661 |
| Derivative assets | **2,870** | 3,624 |
| Investment in debt instruments at FVOCI | **758** | 740 |
| Investment in debt instruments at amortized cost | **12,143** | 12,134 |
| Noncurrent receivables and deposits - net | **38,865** | 36,664 |
| Restricted cash | **18,260** | 19,078 |
| | **P543,003** | P629,370 |

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

| | **March 31, 2023** | | | | | |
|---|---|---|---|---|---|---|
| | **Financial Assets at Amortized Cost** | | | | | |
| | **12-Month ECL** | **Lifetime ECL not Credit Impaired** | **Lifetime ECL Credit Impaired** | **Financial Assets at FVPL** | **Financial Assets at FVOCI** | **Total** |
| Cash and cash equivalents (excluding cash on hand) | **P243,726** | **P -** | **P -** | **P -** | **P -** | **P243,726** |
| Trade and other receivables | **226,381** | **-** | **12,820** | **-** | **-** | **239,201** |
| Derivative assets | **-** | **-** | **-** | **1,428** | **1,442** | **2,870** |
| Investment in debt instruments at FVOCI | **-** | **-** | **-** | **-** | **758** | **758** |
| Investment in debt instruments at amortized cost | **12,143** | **-** | **-** | **-** | **-** | **12,143** |
| Noncurrent receivables and deposits | **-** | **38,865** | **574** | **-** | **-** | **39,439** |
| Restricted cash | **14,233** | **4,027** | **-** | **-** | **-** | **18,260** |

| | December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Financial Assets at Amortized Cost | | | | | |
| | 12-Month ECL | Lifetime ECL not Credit Impaired | Lifetime ECL Credit Impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash and cash equivalents (excluding cash on hand) | P318,469 | P - | P - | P - | P - | P318,469 |
| Trade and other receivables | 238,661 | - | 12,941 | - | - | 251,602 |
| Derivative assets | - | - | - | 1,592 | 2,032 | 3,624 |
| Investment in debt instruments at FVOCI | - | - | - | - | 740 | 740 |
| Investment in debt instruments at amortized cost | 12,134 | - | - | - | - | 12,134 |
| Noncurrent receivables and deposits | - | 36,664 | 582 | - | - | 37,246 |
| Restricted cash | 17,411 | 1,667 | - | - | - | 19,078 |

The aging of receivables is as follows:

| **March 31, 2023** | **Trade** | **Non-trade** | **Amounts Owed by Related Parties** | **Total** |
|---|---|---|---|---|
| Current | **P78,165** | **P35,307** | **P6,546** | **P120,018** |
| Past due: | | | | |
| 1 - 30 days | **11,471** | **508** | **605** | **12,584** |
| 31 - 60 days | **8,698** | **1,184** | **314** | **10,196** |
| 61 - 90 days | **6,807** | **2,783** | **254** | **9,844** |
| Over 90 days | **55,234** | **29,806** | **1,519** | **86,559** |
| | **P160,375** | **P69,588** | **P9,238** | **P239,201** |

| December 31, 2022 | Trade | Non-trade | Amounts Owed by Related Parties | Total |
|---|---|---|---|---|
| Current | P118,098 | P39,480 | P8,369 | P165,947 |
| Past due: | | | | |
| 1 - 30 days | 16,555 | 776 | 82 | 17,413 |
| 31 - 60 days | 7,208 | 926 | 133 | 8,267 |
| 61 - 90 days | 6,086 | 4,015 | 5 | 10,106 |
| Over 90 days | 24,467 | 24,482 | 920 | 49,869 |
| | P172,414 | P69,679 | P9,509 | P251,602 |

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.

<u>Other Market Price Risk</u>
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.

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

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

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

## 10. Financial Assets and Financial Liabilities

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

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

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

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

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

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

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

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

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

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

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

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group’s cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category.

Cash includes cash on hand and in banks. 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 and debt 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:

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

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

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

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

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

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

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

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

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

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

| | March 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P245,687** | **P245,687** | P320,860 | P320,860 |
| Trade and other receivables - net | **226,381** | **226,381** | 238,661 | 238,661 |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **2,870** | **2,870** | 3,624 | 3,624 |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **1,372** | **1,372** | 1,349 | 1,349 |
| Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **7,099** | **7,099** | 7,076 | 7,076 |
| Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **12,143** | **12,143** | 12,134 | 12,134 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | **38,865** | **38,865** | 36,664 | 36,664 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **18,260** | **18,260** | 19,078 | 19,078 |
| **Financial Liabilities** | | | | |
| Loans payable | **P220,347** | **P220,347** | P271,052 | P271,052 |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities) | **217,462** | **217,462** | 224,435 | 224,435 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **1,472** | **1,472** | 2,832 | 2,832 |
| Long-term debt (including current maturities) | **1,062,165** | **1,074,829** | 1,088,248 | 1,091,783 |
| Lease liabilities (including current portion) | **71,349** | **71,349** | 77,489 | 77,489 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | **22,346** | **22,346** | 22,858 | 22,858 |

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 4.1% to 6.2% and 3.6% to 7.0% as at March 31, 2023 and December 31, 2022, respectively. The discount rates used for foreign currency-denominated loans range from 3.5% to 5.3% and 3.1% to 5.4% as at March 31, 2023 and December 31, 2022, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

*Freestanding Derivatives*

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

*Cash Flow Hedge.* When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

*Embedded Derivatives*
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

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

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

Derivative Instruments Accounted for as Cash Flow Hedges

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

| | Maturity | | | |
|---|---|---|---|---|
| **March 31, 2023** | **1 Year or Less** | **> 1 Year - 2 Years** | **> 2 Years - 5 Years** | **Total** |
| Foreign currency risk: | | | | |
| Call spread swaps: | | | | |
| Notional amount | **US$ -** | **US$190** | **US$80** | **US$270** |
| Average strike rate | **-** | **P48.00 to 53.70** | **P51.35 to 59.00** | |
| Foreign currency and interest rate risks: | | | | |
| Cross currency swap: | | | | |
| Notional amount | **US$240** | **US$50** | **US$ -** | **US$290** |
| Average strike rate | **P47.00 to P56.50** | **P47.00 to P56.50** | **-** | |
| Fixed interest rate | **4.19% to 5.80%** | **3.60% to 5.75%** | **-** | |
| Interest rate risk: | | | | |
| Interest rate collar: | | | | |
| Notional amount | **US$30** | **US$15** | **US$225** | **US$270** |
| Interest rate | **0.44% to 1.99%** | **0.44% to 1.99%** | **0.50% to 3.00%** | |

| | Maturity | | | |
|---|---|---|---|---|
| December 31, 2022 | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Total |
| Foreign currency risk: | | | | |
| Call spread swaps: | | | | |
| Notional amount | US$60 | US$190 | US$40 | US$290 |
| Average strike rate | P52.95 to P56.15 | P48.00 to P53.70 | P51.35 to P55.40 | |
| Foreign currency and interest rate risks: | | | | |
| Cross currency swap: | | | | |
| Notional amount | US$240 | US$40 | US$ - | US$280 |
| Average strike rate | P47.00 to P56.50 | P47.00 to P56.50 | - | |
| Fixed interest rate | 4.19% to 5.80% | 3.60% to 5.75% | - | |
| Interest rate risk: | | | | |
| Interest rate collar: | | | | |
| Notional amount | US$30 | US$15 | US$225 | US$270 |
| Interest rate | 0.44% to 1.99% | 0.44% to 1.99% | 0.50% to 3.00% | |

The following are the amounts relating to hedged items:

| **March 31, 2023** | **Change in Fair Value Used for Measuring Hedge Ineffectiveness** | **Hedging Reserve** | **Cost of Hedging Reserve** |
|---|---|---|---|
| Foreign currency risk: | | | |
| US dollar-denominated borrowings | **(P96)** | **P -** | **(P422)** |
| Foreign currency and interest rate risks: | | | |
| US dollar-denominated borrowings | **238** | **85** | **(66)** |
| Interest rate risk: | | | |
| US dollar-denominated borrowings | **(38)** | **219** | **(88)** |

| December 31, 2022 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
|---|---|---|---|
| Foreign currency risk: | | | |
| US dollar-denominated borrowings | (P552) | P - | (P454) |
| Foreign currency and interest rate risks: | | | |
| US dollar-denominated borrowings | (2,059) | 89 | (51) |
| Interest rate risk: | | | |
| US dollar-denominated borrowings | (339) | 250 | (90) |

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

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

| **March 31, 2023** | **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$270** | **P749** | **P -** | Prepaid expenses and other current assets and Other noncurrent assets - net | **P96** | **(P13)** | **(P96)** | **P51** | Interest expense and other financing charges, and Other income (charges) - net |
| Foreign currency and interest rate risks: | | | | | | | | | |
| Cross currency swap | **290** | **519** | **-** | Prepaid expenses and other current assets and Other noncurrent assets - net | **(238)** | **(26)** | **363** | **-** | Interest expense and other financing charges, and Other income (charges) - net |
| Interest rate risk: | | | | | | | | | |
| Interest rate collar | **270** | **174** | **-** | Prepaid expenses and other current assets and Other noncurrent assets - net | **38** | **24** | **(14)** | **(22)** | Interest expense and other financing charges |

| December 31, 2022 | 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$290 | P887 | P - | Prepaid expenses and other current assets and Other noncurrent assets - net | P552 | (P397) | (P553) | P209 | Interest expense and other financing charges and Other charges - net |
| Foreign currency and interest rate risks: | | | | | | | | | |
| Cross currency swap | 280 | 931 | - | Prepaid expenses and other current assets and Other noncurrent assets - net | 2,059 | (886) | (1,048) | 51 | Interest expense and other financing charges and Other charges - net |
| Interest rate risk: | | | | | | | | | |
| Interest rate collar | 270 | 214 | - | Prepaid expenses and other current assets and Other noncurrent assets - net | 339 | (102) | (5) | (17) | Interest expense and other financing charges |

No ineffectiveness was recognized in the 2023 and 2022 consolidated statements of income.

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

| | **March 31, 2023** | | December 31, 2022 | |
|---|---|---|---|---|
| | **Hedging Reserve** | **Cost of Hedging Reserve** | Hedging Reserve | Cost of Hedging Reserve |
| Beginning balance | **P339** | **(P595)** | (P805) | P272 |
| Changes in fair value: | | | | |
| Foreign currency risk | **98** | **(13)** | 552 | (397) |
| Foreign currency risk and interest rate risks | **(366)** | **(26)** | 2,236 | (886) |
| Interest rate risk | **(25)** | **24** | 343 | (102) |
| Amount reclassified to profit or loss | **253** | **29** | (1,606) | 243 |
| Tax effect | **5** | **5** | (381) | 275 |
| Ending balance | **P304** | **(P576)** | P339 | (P595) |

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

*Interest Rate Swap*

The Group has outstanding interest rate swap with notional amount of US$365 as at March 31, 2023 and December 31, 2022. Under the agreement, the Group receives floating interest rate based on LIBOR and pays fixed interest rate up to 2026. The net positive fair value of the swap amounted to P40 and P45 as at March 31, 2023 and December 31, 2022, respectively.

*Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,118 and US$959 as at March 31, 2023 and December 31, 2022, respectively, and with various maturities in 2023 and 2024. The net negative fair value of these currency forwards amounted to P193 and P47 as at March 31, 2023 and December 31, 2022, respectively.

*Currency Options*

The Group has outstanding currency options with an aggregate notional amount of US$1,138 and US$1,665 as at March 31, 2023 and December 31, 2022, respectively, and with various maturities in 2023. The net negative fair value of these currency options amounted to P540 and P1,801 as at March 31, 2023 and December 31, 2022, respectively.

*Commodity Swaps*

The Group has outstanding swap agreements covering its fuel oil and coal requirements, with various maturities in 2023 and 2024. 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 outstanding notional quantity of fuel oil were 20.8 million barrels and 31.4 million barrels as at March 31, 2023 and December 31, 2022, respectively. The net positive fair value of these swaps amounted to P835 and P506 as at March 31, 2023 and December 31, 2022, respectively.

The outstanding notional quantity of coal were 117,000 metric tons as at March 31, 2023 and December 31, 2022. The net positive (negative) fair value of these swaps amounted to (P191) and P178 as at March 31, 2023 and December 31, 2022, respectively.

*Commodity Options*
The Group has outstanding option agreements covering its gas oil requirements with an aggregate notional amount of 250,000 barrels as at March 31, 2023, and with maturities in 2023. The negative fair value of these options amounted P36 as at March 31, 2023.

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$157 and US$141 as at March 31, 2023 and December 31, 2022, 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 P41 and (P121) as at March 31, 2023 and December 31, 2022, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P2,177), (P215) and P2,920 for the periods ended March 31, 2023 and 2022, and December 31, 2022, respectively (Note 4).

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

| | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| Balance at beginning of year | **P792** | (P463) |
| Net change in fair value of derivatives: | | |
| Designated as accounting hedge | **(308)** | 1,746 |
| Not designated as accounting hedge | **(2,233)** | (23,589) |
| | **(1,749)** | (22,306) |
| Less fair value of settled instruments | **(3,147)** | (23,098) |
| Balance at end of period | **P1,398** | P792 |

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

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

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

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

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

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

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

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

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

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

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

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

| | **March 31, 2023** | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P2,870** | **P2,870** | P - | P3,624 | P3,624 |
| Financial assets at FVPL | **-** | **1,325** | **1,325** | - | 1,303 | 1,303 |
| Financial assets at FVOCI | **605** | **6,494** | **7,099** | 600 | 6,476 | 7,076 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **1,472** | **1,472** | - | 2,832 | 2,832 |

The Group has no financial instruments valued based on Level 3 as at March 31, 2023 and December 31, 2022. For the period ended March 31, 2023 and for the year ended December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## 11. Other Matters

a. Commitments

   The outstanding purchase commitments of the Group amounted to P268,539 and P266,580 as at March 31, 2023 and December 31, 2022, respectively.

   These consist mainly of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business and will be funded by available cash, short-term loans and long-term debt.

b. There were 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.

c. There were no material changes in estimates of amounts reported in prior financial years.

d. The effects of Coronavirus Disease 2019 pandemic and Russia-Ukraine conflict in the performance of the Group are discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

e. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

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

The following are the major performance measures that Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2023 and December 31, 2022 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2023 and 2022 for operating efficiency ratios.

| | **March 2023** | December 2022 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | **1.27** | 1.21 |
| Quick Ratio | **0.76** | 0.76 |
| Solvency: | | |
| Debt to Equity Ratio | **2.35** | 2.49 |
| Asset to Equity Ratio | **3.35** | 3.49 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | **(5.21%)** | (8.24%) |
| Interest Rate Coverage Ratio | **2.38** | 1.60 |
| Return on Assets | **1.22%** | 1.01% |

| | **Period Ended March 31** | |
|---|---|---|
| | **2023** | 2022 |
| Operating Efficiency: | | |
| Volume Growth | **7%** | 16% |
| Revenue Growth | **9%** | 57% |
| Operating Margin | **10%** | 10% |

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

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

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

* *Annualized for quarterly reporting*

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

## INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as at and for the period ended March 31, 2023 (with comparative figures as at December 31, 2022 and for the period ended March 31, 2022). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2023, 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. 2023 SIGNIFICANT TRANSACTIONS

## INVESTMENT IN SUBSIDIARIES

**Sale of Investment in Asia-Alliance Mining Resources Corp. (AAMRC) by Clariden Holdings, Inc. (CHI)**

On February 10, 2023, the Parent Company through CHI entered into a Deed of Absolute Sale of Shares with a third party for the sale of 1,140,000 common shares of AAMRC representing 60% of the issued and outstanding common stock of AAMRC for a total consideration of P2,661 million, of which P184 million were collected as guarantee deposits in 2022 presented as part of "Accounts payable and accrued expenses" account in the December 2022 consolidated statement of financial position. The balance of the consideration amounting to P2,477 million which will be collected in four equal annual installments was presented as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the March 2023 consolidated statement of financial position.

Consequently, AAMRC was deconsolidated from the Group. The Group derecognized AAMRC's assets which were classified as assets held for sale under "Prepaid and other current assets" account (including mining rights) and liabilities classified as liabilities directly associated with assets held for sale under "Accounts payable and other accrued expenses" account in the December 2022 consolidated statement of financial position, and the carrying amount of non-controlling interest as at the deconsolidation date. The guarantee deposits previously recognized under "Accounts payable and accrued expenses" formed part of the consideration received.

The Group recognized a gain on the sale amounting to P2,490 million, presented as part of "Gain on sale of investment and property and equipment" in the March 2023 consolidated statement of income.

## AVAILMENT OF LONG-TERM DEBT

### PESO TERM LOAN

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

  On January 17, 2023, MPPCL executed an agreement with local banks to amend its Omnibus Refinancing Agreement (ORA) to avail of a Peso-denominated loan amounting to P8,155 million and pay its outstanding obligation amounting to US$148 million. The term of the loan is for seven years and is subject to a floating interest rate. MPPCL holds a one-time right to convert the loan into a fixed interest rate borrowing on the second anniversary from the additional ORA loan availment date, pursuant to the terms of the agreement.

- **San Miguel Brewery Inc. (SMB)**

  On February 21, 2023, SMB availed of the remaining P5,000 million term loan from its P10,000 million loan facility executed on December 19, 2022 to partially finance capital expenditures. The term of the loan is for five years and is subject to a fixed interest rate for the first two years, to be repriced and fixed for the remaining three years.

- **SMC NAIAX Corporation (SMC NAIAX)**

  On January 10 and March 15, 2023, SMC NAIAX availed of a total P832 million term loan from its P5,656 million Omnibus Loan and Security Agreement with various banks executed on December 21, 2022. The term of the loan is for seven years and three months and is subject to a floating interest rate. The proceeds of the loan were being used to partially finance the construction and development of the NAIAX Tramo Extension Project.

### FOREIGN CURRENCY-DENOMINATED LOANS

- **San Miguel Global Power Holdings Corp. (San Miguel Global Power, formerly SMC Global Power Holdings Corp.)**

  On March 16, 2023, San Miguel Global Power availed of a US$100 million term loan from the loan facility agreement executed on March 10, 2023 with a foreign bank. The term of the loan is 18 months and is subject to a floating interest rate.

  The proceeds of the loan will be used for general corporate purposes, including capital expenditures and refinancing of loan, and payment of other transaction related fees, costs and expenses of the facility.

- **SMC**

  a. On March 28, 2023, SMC availed of a US$600 million term loan from its US$1,200 million term loan facility executed on March 21, 2023. The term of the loan is for five years and is subject to a floating interest rate. The proceeds of the loan were used and will be used for general corporate purposes including the refinancing of external indebtedness, as well as related fees and expenses and payment of other transaction related fees, costs and expenses of the facility.

b. In February and March, 2023, SMC availed a total of US$198 million term loan from the US$2,165 million loan facility executed on March 31, 2022. The term of the loan is 13 years and is subject to a floating interest rate. The proceeds were used to fund the land development works of the Manila International Airport (MIA) Project in Bulacan. As at March 31, 2023, a total of P1,069 million has been drawn from the facility.

- **Petron Corporation (Petron)**

  On January 20 and February 3, 2023, Petron availed a total of US$55 million from the US$550 million term loan facility executed in November 2022. The loans have final maturity of November 8, 2027 and are subject to floating interest rates. As at March 31, 2023, the total amount of the base facility has been fully drawn.

  The proceeds of the loan were used to partially prepay the amortizations for the JPY15,000 million long-term loan amounting to US$30 million, and to partially prepay the amortization for the US$800 million long-term loan amounting to US$25 million.

**PAYMENT OF FIXED RATE PESO-DENOMINATED BONDS BY SMC**

On March 20, 2023, SMC paid its Series E Fixed Rate Peso-denominated Bonds amounting to P13,146 million, which matured on the same date. The Series E Bonds, which formed part of the P20,000 million Series E, Series F and Series G Fixed Rate Bonds were issued by SMC in 2018.

The Series E Bonds were paid from the proceeds of the P60,000 million Series L, Series M and Series N Fixed Rate Peso-denominated Bonds issued on December 14, 2022.

**PAYMENT OF OTHER MATURING OBLIGATIONS**

**FOREIGN CURRENCY-DENOMINATED TERM LOANS**

- **San Miguel Global Power**

  On March 13, 2023, San Miguel Global Power paid the remaining balance of the US$700 million term loan facility availed on March 16, 2018 amounting to US$500 million, which matured on the same day.

  The payment was funded by the proceeds from issuance of Redeemable Perpetual Securities by San Miguel Global Power to SMC amounting to US$500 million on March 10, 2023 and cash generated from operations.

- **SMC**

  On February 23, 2023, SMC prepaid in full the US$400 million term loan availed on March 16, 2018.

  The U$400 million was paid from the available cash balance.

**PESO TERM LOANS**

During the first quarter of 2023, the Group paid a total of P5,374 million of its scheduled amortizations and maturing obligations.

The Infrastructure, Petron, Energy, Packaging, Cement, Food and Beverage businesses and SMC paid a total of P2,155 million, P1,039 million, P987 million, P733 million, P329 million, P91 million and P40 million, respectively, of their maturing obligations.

**PARTIAL REPURCHASE OF US$500 MILLION SENIOR PERPETUAL CAPITAL SECURITIES (SPCS) BY PETRON**

On January 4, 2023, Petron conducted a tender offer of up to US$50 million to the holders of its outstanding US$500 million SPCS issued and listed with the Singapore Exchange Securities Trading Limited in January 2018. On January 12, 2023, the expiration deadline of the tender offer, a total of US$22 million in principal amount of SPCS were accepted by Petron. Security holders that validly tendered their securities at or prior to the expiration deadline and which Petron accepted for purchase from such security holder were paid the applicable purchase price of US$927.00 per US$1,000.00 on January 19, 2023.

The difference between the price paid and the net carrying amount of the SPCS repurchased was recognized as part of “Equity reserves” account in the 2023 consolidated statement of financial position.

## II. FINANCIAL PERFORMANCE

**2023 vs. 2022**

| | March | | Horizontal Analysis Increase (Decrease) | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | **Amount** | **%** | **2023** | **2022** |
| | *(In Millions)* | | | | | |
| Sales | **P346,716** | P316,756 | P29,960 | 9% | **100%** | 100% |
| Cost of Sales | **290,438** | 264,786 | 25,652 | 10% | **84%** | 84% |
| Gross Profit | **56,278** | 51,970 | 4,308 | 8% | **16%** | 16% |
| Selling and Administrative Expenses | **(21,636)** | (19,917) | 1,719 | 9% | **(6%)** | (6%) |
| Operating Income | **34,642** | 32,053 | 2,589 | 8% | **10%** | 10% |
| Interest Expense and Other Financing Charges | **(21,590)** | (12,031) | 9,559 | 79% | **(6%)** | (4%) |
| Interest Income | **3,468** | 1,038 | 2,430 | 234% | **1%** | 1% |
| Equity in Net Earnings of Associates and Joint Ventures | **653** | 449 | 204 | 45% | **0%** | 0% |
| Gain on Sale of Investment and Property and Equipment | **2,445** | 2 | 2,443 | 122150% | **1%** | 0% |
| Other Income (Charges) - Net | **10,212** | (2,281) | 12,493 | 548% | **3%** | (1%) |
| Income Before Income Tax | **29,830** | 19,230 | 10,600 | 55% | **9%** | 6% |
| Income Tax Expense | **9,978** | 6,208 | 3,770 | 61% | **3%** | 2% |
| Net Income | **P19,852** | P13,022 | P6,830 | 52% | **6%** | 4% |
| Net Income Attributable to: | | | | | | |
| Equity Holders of the Parent Company | **P6,360** | P1,991 | P4,369 | 219% | **2%** | 1% |
| Non-controlling Interests | **13,492** | 11,031 | 2,461 | 22% | **4%** | 3% |
| Net Income | **P19,852** | P13,022 | P6,830 | 52% | **6%** | 4% |

The Group recorded consolidated sales of P346,716 million for the first quarter of the year, 9% higher than the same period in 2022 mainly on account of higher sales volume of Petron and the Beer and Non-alcoholic (NAB) division of the Food and Beverage business and the sales contribution of ECC which was consolidated effective December 2022. This was partly offset by the lower sales from the Energy business.

The Group's cost of sales increased by 10% mainly due to: (a) increase in sales volume partly offset by the lower cost per liter of fuel products of Petron; (b) higher sales volume of the Beer and NAB division of the Food and Beverage business; and (c) the cost of sales of ECC for the quarter. This was partly offset by the lower overall power purchases of the Energy business relative to the decline in sales volume.

The increase in selling and administrative expenses of 9% is attributable mainly to higher distribution costs and amortization of deferred containers of SMB and the additional operating expenses of ECC.

Consolidated operating income rose 8% to P34,642 million driven by the sustained performance improvements of the Beer and NAB division of the Food and Beverage business and Infrastructure business and the contribution of ECC for the period. This was however softened by the effect of rising raw material prices which continues to challenge the businesses, particularly the Food division of the Food and Beverage business and the Energy business.

The increase in interest expense and other financing charges was mainly due to higher interest rates and average loan balance of SMC and Petron.

The increase in interest income was mainly due to higher interest rates and average balance of short-term placements of the Infrastructure business, SMC, SMB and Petron and the higher balance of investment in debt securities of SMB, Ginebra San Miguel Inc. (GSMI), and Petrogen Insurance Corporation.

The increase in equity in net earnings of associates and joint ventures was mainly due to the share on the higher net income of Bank of Commerce (BOC) and Angat Hydropower Corporation (Angat Hydro) in the first quarter of 2023 compared to the same period last year.

The gain on sale of investment and property and equipment in 2023 mainly represents the gain recognized by CHI on the sale of its investment in shares of stock of AAMRC.

Other income - net in 2023 mainly represents the net gain on foreign exchange from the revaluation of foreign currency-denominated long-term debt. The Philippine Peso appreciated by P1.395 against the US Dollar, from P55.755 in December 2022 to P54.36 in March 2023. Other charges - net in 2022 mainly represents the net loss on foreign exchange from the revaluation of foreign currency-denominated long-term debt partly offset by the gain on revaluation of foreign currency-denominated cash and cash equivalents and receivables.

The higher income tax expense of the Group was primarily due to SMC's turn-around from income tax benefit in 2022 to income tax expense in 2023, as a result of the unrealized gain on the revaluation of foreign currency-denominated long-term debt compared to a loss in the same period last year and the higher unrealized gain on derivatives.

Consolidated net income rose 52% to P19,852 million, from P13,022 million last year, mainly on account of the: (a) significant gain on foreign exchange recognized in the first quarter of 2023, as a result of the appreciation of the Philippine Peso against the US Dollar in March 2023, compared to the loss on foreign exchange recognized in the same period last year, and (b) and the gain recognized by CHI on the sale of its investment in shares of stock of AAMRC.

The increase in the share of non-controlling interests (NCI) was mainly due to the higher net income of San Miguel Global Power and SMFB.

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

**1) FOOD AND BEVERAGE**

San Miguel Food and Beverage, Inc. (SMFB) posted consolidated sales of P93,186 million during the first three months of the year, 12% higher than the same period last year, brought about by the volume growth from the beer division combined with higher selling prices across the Beer, Spirits and Food divisions.

However, while the Beer division posted strong operating income growth in the first quarter, the impact of rising cost of raw materials that affected the Food and Spirits divisions resulted in the decline in operating income of SMFB by 9% at P11,581 million.

SMFB’s consolidated net income was up 8% ending at P9,875 million, mainly due to SMB’s strong performance, including the gain recognized by GSMI from the assignment of product rights.

**a. Beer and NAB Division**

SMB's consolidated sales rose 29% to P38,335 million from last year's P29,659 million, mainly due to volume growth and price adjustments implemented by both the domestic and international operations. Consolidated volumes reached 62.6 million cases, up 26% from the previous year.

SMB's operating income grew 25% to P8,438 million from last year while consolidated net income reached P6,819 million, up 38% from P4,935 million last year.

**Domestic Operations**
SMB's domestic operations delivered beer volumes of 54.9 million cases for the first three months, 26% higher compared to the same period last year. The continued uptrend in volumes were mainly driven by the full return of business operations, on-premise recovery, and resumption of tourism activities complemented by new brand campaigns and offtake generating programs. Along with the impact of the price increase implementation, SMB domestic revenues grew 28% to P33,988 million from the previous year.

NAB's volume sustained its growth momentum surpassing last year's level by 73%.

Combined with cost management and efficiency improvements, operating income and net income amounted to P7,309 million and P5,740 million, 17% and 29% growth respectively.

To support its robust performance and further strengthen value proposition and consumption in key channels, SMB domestic launched new thematic brand campaigns namely: San Miguel Pale Pilsen's "*Samaritan*" advertisement and "*Sarap ng Beermen Predictions*" digital promotions; Red Horse' "*Magneto*" advertisement; and San Mig Light's ongoing "*Yass*" and "*Sweet Street*" thematic campaign. NAB also launched the new Magnolia Fruit Drink Mango in 250ml bottle last April, affordably priced at P10.00 per bottle.

**International Operations**
SMB's international operations posted increase in volumes and sales of 29% and 27%, respectively, in the first three months of the year. This was primarily driven by the strong performance from Hong Kong, Thailand, and exports.

**b. Spirits Division**

GSMI recorded sales volumes of 11.5 million cases, down by 5% from the previous year, reflecting the effect of a temporary volume slowdown in February due to the price increase implementation on February 1, 2023, this was 15 days earlier compared to the previous year's price increase implementation. Nevertheless, the launching in March 2023 of the nationwide *"Ngiting Instanalo"* consumer promo drove the quick rebound in volumes posting a 10% growth in March compared to the same period last year. GSM Blue volumes, in particular, posted a year-to-date growth of 32% against last year.

GSMI will further spur consumption this summer festivities through full-scale *"Ginumanfest"* concert events and intensified sampling and penetration activities at popular resort and on-premise outlets.

Sales reached P12,945 million, 3% higher from the P12,620 million reported in the same period in 2022. Operating income however was down 9% to P1,631 million mainly brought by lower volumes and higher input costs.

Net income amounted to P2,532 million, 81% higher than 2022 mainly on account of the income from the assignment of product rights recognized in March 2023.

**c. Food Division**

The Food division posted consolidated sales of P41,908 million during the first quarter of the year, 3% higher than the same period last year. The Food division had a rough start as persistent high inflation rates started to impact consumer spending and limited poultry capacity curbed sales of the poultry business. However, price increases implemented since last year across products categories to cope with rising raw material costs helped sustain topline growth.

While commodity prices have generally trended lower during the first quarter of the year, absolute price levels remained elevated compared to last year. The price gap between the first quarter of 2023 and the same period in 2022 is also heightened as inventories during the early part of last year were priced lower.

The continued escalation of raw material costs and other inputs squeezed operating income to P1,531 million, 63% lower compared to the previous year. Consequently, net income ended at P740 million, 76% lower than last year.

The Food division is committed to recover from this temporary setback, seeing second quarter improvements with prices of raw materials starting to stabilize. Better growing efficiencies in poultry is also expected with the recovery of some contract growers and addition of new capacities that will come onstream for the balance of the year.

Revenues from the Animal Nutrition and Health segment grew by 8%, on account of higher selling prices. Volumes were behind last year as African Swine Fever (ASF) and avian flu persisted, dampening demand for feeds. At least half of the towns within the country remain affected by the ASF which has cut total hog population by almost one-fourth since its onset in 2018. Meanwhile, around 2.2 million birds were lost due to avian flu.

The Protein segment, consisting of Poultry and Meats businesses, posted sales 8% lower than last year, which has been affected by the aggressive capacity grabbing by other industry players which constricted volumes. Fresh Meats' lower volumes on the other hand reflected the deliberate strategy to downsize the hog operations.

The Prepared and Packaged Food segment's consolidated sales was 14% higher than last year. Demand for Tender Juicy Hotdogs and Purefoods Chicken Nuggets held steady despite price increases while sales of butter, margarine, cheese, and coffee registered growth. Purefoods luncheon meat, in particular, has been emerging as a viable alternative for SPAM.

The Flour segment posted a 13% growth in consolidated sales on the back of better selling prices combined with volume growth after regaining market share.

**2) PACKAGING**

The Packaging business' consolidated sales for the first quarter of 2023 grew 27% to P10,195 million compared to the same period last year, sustaining its growth momentum since end of 2022. This was mainly driven by strong demand from glass, plastics, flexibles and beverage filling which continue to increase, together with the stable growth from Australia operations.

Operating income amounted to P803 million, 31% higher than last year.

**3) ENERGY**

San Miguel Global Power's offtake volumes for the first quarter ended at 4,657 gigawatt hours (Gwh), 33% lower than last year, mainly due to the absence of natural gas supply to the Ilijan Power Plant.

Consolidated sales amounted to P41,124 million, slightly lower than the P43,036 million registered last year. Volume decline was mitigated by the overall higher average tariff rate adjustments for pass-on fuel costs.

With better margins on its available net capacity, operating income reached P7,575 million, up 12% from P6,790 million last year.

Net income grew 177% to P5,345 million, which includes the impact of net foreign exchange gains recognized from the revaluation of foreign currency-denominated net liabilities compared to the net foreign exchange loss recognized last year.

San Miguel Global Power recently accomplished several key milestones in its two landmark and game changing projects in the local power industry.

The 1,000 MW Battery Energy Storage Systems (BESS) projects was inaugurated on March 31, 2023 in Limay, Bataan. Some of the BESS capacities have successfully participated and secured ancillary services contracts to render power quality solutions for the Grid. The remaining BESS capacities are gearing up to meet the incoming requirements for grid ancillary services and also provide instant peak supply that will help ensure energy security in the coming years.

San Miguel Global Power also launched its foray into Liquefied Natural Gas (LNG) power generation with the first ever shipment of LNG to the country which happened in the last week of April 2023. The LNG transfer was made to a Floating Storage Unit which eventually berthed on the first ever LNG terminal in the country strategically located between San Miguel Global Power's 1,200MW Ilijan Power Plant and the new 1,313MW Batangas Combined Cycled Power Plant. The LNG terminal is expected to provide LNG fuel to the Ilijan Power Plant in May 2023 and reintegrate its valuable baseload capacity to the Grid.

**4) FUEL AND OIL**

Petron sustained its recovery momentum in the first quarter, delivering significant growth across the business, registering consolidated sales of P188,753 million, 10% higher from last year's P172,331 million. This was mainly boosted by growth in fuel demand from both Philippine and Malaysian operations registering 28.6 million barrels, up 11% from 25.7 million barrels in 2022.

Consolidated commercial sales grew 13% owing to higher demand from the aviation sector. Retail sales from both the Philippines and Malaysia markets similarly increased by 12% due to increased mobility. Polypropylene sales likewise expanded by 68%.

Despite the price movements of Dubai crude oil, which dipped by 16% to US$80.32 per barrel in the first quarter of 2023 from US$95.56 in 2022, operating income ended at P8,418 million, at par with the previous year while net income amounted to P3,399 million, slightly behind last year's P3,598 million by 6%.

**5) INFRASTRUCTURE**

The Infrastructure business sustained its growth momentum since end of 2022 recording combined average daily traffic volumes of 996,805 for the first quarter, 23% higher compared to the same period last year. This was mainly driven by the resumption of onsite work and face to face classes along with the increase in tourism-related travel. Correspondingly, consolidated revenues reached P8,170 million, 31% higher than last year's level.

Operating income soared by 82% to P4,485 million, as a result of sustained growth in traffic volumes backed by continued cost management initiatives.

The construction of Metro Rail Transit Line 7 (MRT 7), South Luzon Expressway - Toll Road 4 (SLEX-TR4) and Skyway Stage 4 are all on track. The awarding of the Independent Contractor contract is in progress for the Pasig River Expressway, Northern Access Link Expressway, Southern Access Link Expressway and South Luzon Expressway - Toll Road 5 projects. As at March 2023, the overall completion of the Land Development Works for the MIA Project was at 55.33%. The MIA project team continues to work on the Airport Masterplan along with the critical components of the Airport.

**6) CEMENT**

The Cement business which includes ECC, Northern Cement Corporation and Southern Concrete Industries, Inc. registered consolidated sales of P10,340 million for the first quarter of 2023 from last year's P3,222 million, representing mainly the sales contribution of ECC. Operating income amounted to P1,333 million from P293 million in 2022.

The current portfolio of the Cement business is expected to further solidify SMC's strong position in the domestic cement industry, which greatly complements and enhances its nation-building-through-infrastructure development agenda across multiple industries

**2022 vs. 2021**

| | March | | Horizontal Analysis Increase (Decrease) | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **Amount** | **%** | **2022** | **2021** |
| | *(In Millions)* | | | | | |
| Sales | **P316,756** | P201,157 | P115,599 | 57% | **100%** | 100% |
| Cost of Sales | **264,786** | 154,870 | 109,916 | 71% | **84%** | 77% |
| Gross Profit | **51,970** | 46,287 | 5,683 | 12% | **16%** | 23% |
| Selling and Administrative Expenses | **(19,917)** | (20,050) | (133) | (1%) | **(6%)** | (10%) |
| Operating Income | **32,053** | 26,237 | 5,816 | 22% | **10%** | 13% |
| Interest Expense and Other Financing Charges | **(12,031)** | (11,585) | 446 | 4% | **(4%)** | (6%) |
| Interest Income | **1,038** | 847 | 191 | 23% | **1%** | 1% |
| Equity in Net Earnings of Associates and Joint Ventures | **449** | 320 | 129 | 40% | **0%** | 0% |
| Gain on Sale of Property and Equipment | **2** | 1 | 1 | 100% | **0%** | 0% |
| Other Income (Charges) - Net | **(2,281)** | 2,810 | (5,091) | (181%) | **(1%)** | 1% |
| Income Before Income Tax | **19,230** | 18,630 | 600 | 3% | **6%** | 9% |
| Income Tax Expense | **6,208** | 2,253 | 3,955 | 176% | **2%** | 1% |
| Net Income | **P13,022** | P16,377 | (P3,355) | (20%) | **4%** | 8% |
| Net Income Attributable to: | | | | | | |
| Equity Holders of the Parent Company | **P1,991** | P3,621 | (P1,630) | (45%) | **1%** | 2% |
| Non-controlling Interests | **11,031** | 12,756 | (1,725) | (14%) | **3%** | 6% |
| Net Income | **P13,022** | P16,377 | (P3,355) | (20%) | **4%** | 8% |

The Group's consolidated sales for the first quarter of 2022 rose 57% to P316,756 million from P201,157 million of the same period in 2021, on the back of robust volume growth and better selling prices.

The Group's cost of sales increased by 71% mainly due to: (a) higher cost per liter of fuel products and significant increase in sales volume of Petron, (b) higher cost of coal and higher power purchases of the Energy business, and (c) higher sales volume and increase in prices of raw materials of the Food and Beer and NAB divisions of the Food and Beverage business.

Consolidated operating income amounted to P32,053 million, up by 22% from 2021. The increase was partly softened by rising commodity and coal prices which begun to challenge the Food division under the Food and Beverage business and the Energy business.

The increase in interest income was mainly attributable to SMC as a result of higher interest rates on cash and cash equivalents.

The increase in equity in net earnings of associates and joint ventures was mainly due to the share on the higher net income of Manila North Harbour Port Inc. (MNHPI) and Angat Hydro.

Gain on sale of property and equipment in 2022 and 2021 pertains to disposal of various assets.

Other charges - net in 2022 mainly represents the loss on foreign exchange from the revaluation of foreign currency-denominated long-term debt of SMC and San Miguel Global Power. Other income - net in 2021 mainly pertains to unrealized commodity hedging gain of Petron and currency hedging gain of Petron and SMC partly offset by the net loss on foreign exchange from the revaluation of foreign currency-denominated long-term debt of SMC.

The higher income tax expense in 2022 was primarily due to the adjustment made in the first quarter of 2021 for the impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act in 2020 which reduced income tax expense by P3,618 million in the first quarter of 2021. Under the CREATE Act, the income tax rate decreased from 30% to 25% effective July 1, 2020.

Consolidated net income amounted to P13,022 million, down 20% from P16,377 million in 2021 which included the impact of the CREATE Act for 2020. Without the impact of CREATE Act adjustment, consolidated net income should have been 2% higher from 2021.

The decrease in the share of NCI on the Group's net income was mainly due to the lower net income of San Miguel Global Power.

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

**1) FOOD AND BEVERAGE**

SMFB posted consolidated sales of P83,054 million during the first three months of 2022, 9% higher than the same period in 2021, mainly driven by a combination of volume growth and better selling prices across the Food, Beer and NAB and Spirits divisions.

SMFB's consolidated operating income ended slightly higher at P12,700 million which has been affected by rising input costs on raw materials and utilities. Net income amounted to P9,151 million.

**a) Beer and NAB Division**

SMB recorded consolidated sales of P29,659 million for the first quarter of 2022, up 3% from P28,846 million in 2021, mainly due to the sales growth performance of its international operations, coupled with the impact of SMB Domestic operations' price increase implemented last October 1, 2021 which more than made up for the lower domestic volumes. Consolidated volumes ended at 49.4 million cases.

SMB's operating income stood at P6,751 million, at par with 2021, despite higher production costs and selling and administrative expenses. Consolidated net income declined by 10% to P4,935 million from P5,458 million in 2021, which included the impact of CREATE Act adjustment for 2020. Without this, consolidated net income in 2022 would have been P9 million higher than 2021.

**Domestic Operations**

SMB's domestic beer volumes reached 43.5 million cases for the first three months of 2022, 6% lower compared to the same period in 2021. Volumes in January were affected by the surge of Coronavirus Disease 2019 (COVID-19) Omicron variant with alert level restrictions raised and liquor ban re-implemented in various areas. This was significantly reduced by the combined sales improvement in February and March 2022, together with the implementation of stronger brand promotions and volume generating activities. Domestic beer sales slightly increased to P26,450 million, resulting from the impact of a price increase implemented in the latter part of 2021.

NAB volumes sustained its growth momentum delivering double digit growth during the first quarter of 2022.

Operating income amounted to P6,224 million.

To support SMB's domestic performance, new and refreshed brand campaigns were launched to promote distinctive brand experience which was also supported by consumer and trade programs in key channels namely: San Miguel Pale Pilsen's *"Sarap Laging Ka-Selfie"* and *"Happy Hour"* promos and *"Gintong Dagat"* campaign, Red Horse's *"Red Horse Beer Astig"* promo, and *"Una"* and *"Patak"* value for money campaigns; and San Mig Light's *"Bright Side"* thematic campaign and new digital content buckets.

**International Operations**
SMB's international operations sustained its growth momentum in the first three months of 2022, with volumes and revenue increasing by 21% and 18% from the same period in 2021, respectively. This was primarily driven by the continuous growth from Exports and Indonesia and improvements from Thailand operations, offsetting the decline in Vietnam, South China and Hong Kong which had the worst wave of COVID-19 in the first quarter of 2022.

**b) Spirits Division**

GSMI sustained its volume growth in the first quarter of 2022 posting 12.2 million cases, 6% higher compared to the same period in 2021. Bannered by the latest thematic campaign *"Hanggang Huling Patak"* of Ginebra San Miguel, the advertisement resonated well with consumers, further strengthening the brand and spurring more consumption. It also contributed to increasing GSMI's market share to double-digit lead against its closest competitor based on the report released by Nielsen Company.

As a result, sales reached P12,620 million, 11% higher from the P11,338 million reported in the same period in 2021. Operating income grew 39% to P1,796 million mainly brought by higher volumes, impact of price increase implemented in February 2022, and sustained operating efficiencies.

Net income amounted to P1,399 million, 34% higher than 2021.

**c) Food Division**

The Food division delivered strong revenue growth in the first three months of 2022 hitting P40,777 million, a 13% growth from the same period in 2021 amidst setbacks brought by the COVID-19 Omicron-induced lockdowns, the aftermath of Typhoon "Odette" that affected the Visayas region and inflationary conditions arising from the global environment. Growth was supported by higher volumes and enhanced sales mix that put emphasis on premium products coupled with price increases implemented since the latter part of 2021.

Consolidated operating income declined 8% to P4,177 million, as a result of significant increases in cost of major raw materials, challenges in supply chains and skyrocketing fuel prices. To cushion the impact, the Food division maximized the use of alternative raw materials, implemented purposive fixed costs cuts, fully utilized company-owned production facilities and capitalized on synergies in logistics and distribution. This brought net income to P3,036 million.

Revenues from the Animal Nutrition and Health segment grew by 33%, on account of strong volume performance from all major feed types which continue to benefit from the opening of new accounts, successful farm conversions, consistent supply availability and superior feed quality. Hog feeds, in particular, finally posted growth for the first time since the hit of the ASF, as hog farms started to repopulate.

The Protein segment, consisting of Poultry and Meats businesses, delivered revenues at par with 2021. Poultry's revenues grew 3% as selling prices were kept at a high level given minimal frozen inventory and a premiumization strategy for the Magnolia brand. Volumes from Community Resellers, Manukang Bayan and foodservice continued to improve, mitigating the impact of lower foot traffic in supermarkets and wet markets in January and February 2022 due to COVID-19 Omicron-induced restrictions. Meats revenues on the other hand ended lower owing to the deliberate downsizing of hog operations.

Prepared and Packaged Food segment's consolidated revenues grew by 5%, mainly driven by consistent growth from the processed meats business led by its flagship products - Tender Juicy Hotdogs, Purefoods Chicken Nuggets, Purefoods Native Line and Purefoods and Star canned products. Emerging products from the Ready-to-Eat segment, plant-based Veega brand, and salad aids continue to grow solidly, indicative of positive consumer acceptance.

The Flour segment revenues remained strong posting a 52% growth versus the same period of 2021, which was driven by both higher volumes and better selling prices. Expanding geographical distribution in Visayas and Mindanao and the rebound of institutional customers were the key contributors.

**2) PACKAGING**

The Packaging business' consolidated sales for the first quarter of 2022 grew 9% to P8,048 million versus the same period in 2021, sustaining its recovery path since end of 2021. Demand from beverage customers for metal closures, plastics, two-piece aluminum cans, logistics services, and beverage filling continue to increase, along with the stable growth from China, Malaysia and Australia operations.

With effective cost management programs and improved productivity, operating income amounted to P613 million, 56% higher than 2021.

**3) ENERGY**

San Miguel Global Power's first quarter 2022 consolidated sales amounted to P43,036 million, a 57% increase from P27,366 million in 2021. This was mainly brought about by the increase in average bilateral rates attributable to higher fuel prices driven by rising coal indices. This is along with the 10% improvement in offtake volumes of 6,991 Gwh versus 2021, as overall system demand in Luzon started to pick-up due to relatively lighter COVID-19 quarantine restrictions. On January 26, 2022, its 20MW BESS in Kabankalan, Negros also commenced operations.

In spite of strong revenue growth, operating income declined by 36% to P6,790 million as coal prices more than doubled from 2021 on account of increasing coal indices. Power purchases also increased due to exposure to high Wholesale Electricity Spot Market prices, particularly in January 2022 when there were simultaneous multiple plant shutdowns in Luzon plus the continued deration of Ilijan power plant due to gas supply restriction.

Together with the turn-around of provision for income tax for 2022 compared to the same period in 2021, which recorded the full benefits of the CREATE Act, net income amounted to P1,928 million, down 75% from 2021. Without the impact of CREATE Act adjustment, decline in net income would have been lower.

## 4) FUEL AND OIL

Petron opened the year 2022 strong, delivering a net income of P3,598 million for the first quarter, more than double the P1,730 million it generated in the same period in 2021, as it continued to regain significant volumes and realizing the benefits of the strong refining cracks in the region.

Consolidated sales volume grew 34% to 25.7 million barrels resulting from higher demand and the easing of mobility restrictions which saw significant volume growth in almost all its products. In the Philippines, retail volumes increased by 7% while its commercial volumes, including sales of jet fuels and lubricant products significantly improved by almost 50%. Petrochemical volumes rose by about 30% with the increasing demand for resin used for PPEs and online deliveries. With this growing demand and higher prices of petrochemicals, Petron resumed operations of its polypropylene plant after a two-year shutdown.

Petron's consolidated sales for the first three months of 2022 jumped to P172,331 million, up 107% from P83,307 million in 2021 with the recovery in demand and higher international prices. From January to March 2022, Dubai crude prices reached an average of US$95.56 per barrel level brought about by the geopolitical tension and supply concerns caused by the conflict between Russia and Ukraine.

Operating income grew 130% to P8,431 million.

With continuous recovery, Petron focused on further strengthening its reach and broadening its offerings ahead of future demand. More service stations were opened during the first quarter of 2022 in major areas as part of its continuing network expansion program while adopting a new modular and panelized construction system that is creating a more efficient and greener way to construct service stations. Nine more Treats convenience stores were also added since 2021 to beef up its non-fuel business and complement the continuous growth of its retail network.

## 5) INFRASTRUCTURE

The Infrastructure business' volumes for the first quarter of 2022 posted double-digit growth at 21% mainly on the back of increase in traffic flow during the months of February and March 2022 which more than compensated lower volumes due to travel restrictions imposed in January. Correspondingly, consolidated revenues ended at P6,235 million, 44% higher than 2021 levels.

Operating income rose by 108% to P2,461 million, as a result of increase in volume and better margins backed by continued cost management initiatives.

Ongoing infrastructure projects continue to progress well. The MRT 7 project's guideway, stations and depots are already in advanced stages of construction. Construction of SLEX-TR4 and Skyway Stage 4 are both ongoing together with right of way acquisitions. For the MIA project, land development works is ongoing in accordance with the set timetables and environmental and social plans while the new airport masterplan and new aerodrome consultancy contracts were already awarded. The facility agreement for the Export Credit Agency financing for the land development works has already been signed in March 2022.

## III. FINANCIAL POSITION

**2023 vs. 2022**

| | March | December | Horizontal Analysis Increase (Decrease) | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | **2023** | 2022 | Amount | % | **2023** | 2022 |
| Cash and cash equivalents | **P245,687** | P320,860 | (P75,173) | (23%) | **10%** | 13% |
| Trade and other receivables - net | **226,381** | 238,661 | (12,280) | (5%) | **9%** | 9% |
| Inventories | **182,614** | 190,204 | (7,590) | (4%) | **8%** | 8% |
| Current portion of biological assets - net | **3,674** | 3,418 | 256 | 7% | **0%** | 0% |
| Prepaid expenses and other current assets | **130,590** | 134,329 | (3,739) | (3%) | **5%** | 5% |
| **Total Current Assets** | **788,946** | 887,472 | (98,526) | (11%) | **32%** | 35% |
| Investments and advances - net | **34,284** | 32,585 | 1,699 | 5% | **2%** | 1% |
| Investments in equity and debt instruments | **18,702** | 18,678 | 24 | 0% | **1%** | 1% |
| Property, plant and equipment - net | **748,452** | 736,570 | 11,882 | 2% | **30%** | 29% |
| Right-of-use assets - net | **131,989** | 133,382 | (1,393) | (1%) | **5%** | 5% |
| Investment property - net | **78,482** | 79,038 | (556) | (1%) | **3%** | 3% |
| Biological assets - net of current portion | **2,821** | 2,671 | 150 | 6% | **0%** | 0% |
| Goodwill - net | **173,953** | 173,987 | (34) | (0%) | **7%** | 7% |
| Other intangible assets - net | **365,624** | 355,617 | 10,007 | 3% | **15%** | 14% |
| Deferred tax assets | **20,950** | 23,632 | (2,682) | (11%) | **1%** | 1% |
| Other noncurrent assets - net | **106,312** | 99,991 | 6,321 | 6% | **4%** | 4% |
| **Total Noncurrent Assets** | **1,681,569** | 1,656,151 | 25,418 | 2% | **68%** | 65% |
| **Total Assets** | **P2,470,515** | P2,543,623 | (P73,108) | (3%) | **100%** | 100% |
| Loans payable | **P220,347** | P271,052 | (P50,705) | (19%) | **9%** | 11% |
| Accounts payable and accrued expenses | **220,525** | 228,708 | (8,183) | (4%) | **9%** | 9% |
| Lease liabilities - current portion | **21,919** | 21,983 | (64) | (0%) | **1%** | 1% |
| Income and other taxes payable | **46,731** | 38,633 | 8,098 | 21% | **2%** | 1% |
| Dividends payable | **3,732** | 3,522 | 210 | 6% | **0%** | 0% |
| Current maturities of long-term debt - net of debt issue costs | **106,135** | 170,084 | (63,949) | (38%) | **4%** | 7% |
| **Total Current Liabilities** | **619,389** | 733,982 | (114,593) | (16%) | **25%** | 29% |
| Long-term debt - net of current maturities and debt issue costs | **956,030** | 918,164 | 37,866 | 4% | **39%** | 36% |
| Lease liabilities - net of current portion | **49,430** | 55,506 | (6,076) | (11%) | **2%** | 2% |
| Deferred tax liabilities | **71,061** | 69,978 | 1,083 | 2% | **3%** | 3% |
| Other noncurrent liabilities | **36,961** | 37,686 | (725) | (2%) | **1%** | 1% |
| **Total Noncurrent Liabilities** | **1,113,482** | 1,081,334 | 32,148 | 3% | **45%** | 42% |

*Forward*

| (Amounts in millions) | **March 2023** | December 2022 | Horizontal Analysis Increase (Decrease) Amount | % | Vertical Analysis **2023** | 2022 |
|---|---|---|---|---|---|---|
| Capital stock - common | **P490** | P490 | P - | 0% | **0%** | 0% |
| Capital stock - preferred | **260** | 260 | - | 0% | **0%** | 0% |
| Additional paid-in capital | **120,501** | 120,501 | - | 0% | **5%** | 5% |
| Capital securities | **75,732** | 75,732 | - | 0% | **3%** | 3% |
| Equity reserves | **4,688** | 4,953 | (265) | (5%) | **0%** | 0% |
| Retained earnings: | | | | | | |
| Appropriated | **34,093** | 28,272 | 5,821 | 21% | **1%** | 1% |
| Unappropriated | **42,032** | 41,647 | 385 | 1% | **2%** | 2% |
| Treasury stock | **(76,780)** | (76,780) | - | 0% | **(3%)** | (3%) |
| **Equity Attributable to** Equity Holders of the Parent Company | **201,016** | 195,075 | 5,941 | 3% | **8%** | 8% |
| Non-controlling Interests | **536,628** | 533,232 | 3,396 | 1% | **22%** | 21% |
| **Total Equity** | **737,644** | 728,307 | 9,337 | 1% | **30%** | 29% |
| **Total Liabilities and Equity** | **P2,470,515** | P2,543,623 | (P73,108) | (3%) | **100%** | 100% |

Consolidated total assets as at March 31, 2023 amounted to about P2,470,515 million, P73,108 million lower than December 31, 2022. The decrease was primarily due to decrease in cash and cash equivalents.

The decrease in cash and cash equivalents of P75,173 million was mainly due to the net payment of long-term debt and short-term loans, capital expenditures for the ongoing projects of Petron, Infrastructure, Energy, Food and Beverage and Cement businesses and payment of interest and dividends and distributions. This was partly offset by cash generated from operations.

The decrease in trade and other receivables - net by P12,280 million was mainly attributable to the: (a) lower trade customer balances of Petron on account of the lower prices of petroleum products; (b)lower receivables from the Malaysian Government under the Automatic Pricing Mechanism of Petron Malaysia; and (c) collection of receivables from peak season sales by the Food division. The decrease was partly offset by the increase in excise tax refund claims of Petron.

The increase in total biological assets by P406 million was due to higher volume of chicken loaded in the farm, higher growing costs due to higher feeds and chick costs and additional hog farms with the increase in production of breeding stocks.

The increase in investments and advances - net by P1,699 million was mainly due to the: (a) advances by the Energy and Cement businesses for future investments to certain companies; and (b) the Group's share in the net earnings of MNHPI, BOC and Angat Hydro for the period.

The decrease in deferred tax assets by P2,682 million was primarily due to the deferred income tax expense recognized by SMC on unrealized gain from the revaluation of the foreign currency-denominated long-term debt and derivatives.

The increase in other noncurrent assets - net by P6,321 million was mainly due to: (a) higher balance of restricted cash of the Energy business for the payment of long-term debt; (b) non-current portion of receivable from the sale by CHI of its investment in shares of stocks of AAMRC; and (c) additional capitalized expenditures for the MRT 7 project.

The decrease in loans payable by P50,705 million was mainly due to the net payment made by SMC and Petron.

The increase in income and other taxes payable by P8,098 million was mainly due to the: (a) higher Value-Added Tax (VAT) payable of the Food and Beverage business as a result of the implementation of quarterly VAT remittance compared to monthly remittance in 2022 and higher income tax payable from the improved performance of the Beer and NAB and Spirits divisions of the Food and Beverage business; and (b) higher excise tax liability of Petron Philippines.

The increase in dividends payable by P210 million was mainly due to the dividend declaration on March 16, 2023 by SMC Skyway Corporation, net of payment to a non-controlling shareholder.

The decrease in total long-term debt, net of debt issue costs by P26,083 million was primarily due to the: (a) payment of foreign term loans by San Miguel Global Power and SMC, Series E bonds by SMC and other maturing obligations by the Group; and (b) translation adjustments for the period. The decrease was partly offset by the availment of foreign and Peso term loans by the Group.

The decrease in total lease liabilities by P6,140 million was primarily due to the payments made to Power Sector Assets and Liabilities Management Corporation (PSALM) by the Energy business' entities under the Independent Power Producer Administration (IPPA) Agreements.

The decrease in equity reserves by P265 million was mainly due to the loss on exchange differences on the translation of foreign operations for the period with the appreciation of the Philippine Peso against the US Dollar.

The increase in appropriated retained earnings was attributable to: (a) appropriation of SMB for the payment of Series H Bonds which will mature on April 2, 2024 and the P10,000 million term loans that will mature on December 20, 2027; and (b) net appropriations of SMC SLEX Inc. for capital expenditures during the period.

**2022 vs. 2021**

| *(Amounts in millions)* | **March 2022** | December 2021 | Horizontal Analysis Increase (Decrease) Amount | % | Vertical Analysis **2022** | 2021 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **P302,670** | P300,953 | P1,717 | 1% | **14%** | 14% |
| Trade and other receivables - net | **180,627** | 158,202 | 22,425 | 14% | **8%** | 7% |
| Inventories | **138,833** | 141,214 | (2,381) | (2%) | **7%** | 7% |
| Current portion of biological assets - net | **3,317** | 3,106 | 211 | 7% | **0%** | 0% |
| Prepaid expenses and other current assets | **114,156** | 108,941 | 5,215 | 5% | **5%** | 5% |
| **Total Current Assets** | **739,603** | 712,416 | 27,187 | 4% | **34%** | 33% |
| Investments and advances - net | **55,437** | 55,056 | 381 | 1% | **3%** | 3% |
| Investments in equity and debt instruments | **6,231** | 6,229 | 2 | 0% | **0%** | 0% |
| Property, plant and equipment - net | **606,534** | 596,955 | 9,579 | 2% | **28%** | 28% |
| Right-of-use assets - net | **184,055** | 185,516 | (1,461) | (1%) | **8%** | 9% |
| Investment property - net | **73,575** | 73,425 | 150 | 0% | **3%** | 3% |
| Biological assets - net of current portion | **2,537** | 2,244 | 293 | 13% | **0%** | 0% |
| Goodwill | **120,558** | 120,467 | 91 | 0% | **5%** | 6% |
| Other intangible assets - net | **304,786** | 297,656 | 7,130 | 2% | **14%** | 14% |
| Deferred tax assets | **17,315** | 17,427 | (112) | (1%) | **1%** | 1% |
| Other noncurrent assets - net | **95,394** | 96,039 | (645) | (1%) | **4%** | 3% |
| **Total Noncurrent Assets** | **1,466,422** | 1,451,014 | 15,408 | 1% | **66%** | 67% |
| **Total Assets** | **P2,206,025** | P2,163,430 | P42,595 | 2% | **100%** | 100% |
| Loans payable | **P183,879** | P199,690 | (P15,811) | (8%) | **8%** | 9% |
| Accounts payable and accrued expenses | **215,151** | 206,891 | 8,260 | 4% | **10%** | 10% |
| Lease liabilities - current portion | **22,786** | 24,756 | (1,970) | (8%) | **1%** | 1% |
| Income and other taxes payable | **29,237** | 23,135 | 6,102 | 26% | **1%** | 1% |
| Dividends payable | **2,306** | 3,745 | (1,439) | (38%) | **0%** | 0% |
| Current maturities of long-term debt - net of debt issue costs | **149,309** | 88,909 | 60,400 | 68% | **7%** | 4% |
| **Total Current Liabilities** | **602,668** | 547,126 | 55,542 | 10% | **27%** | 25% |
| Long-term debt - net of current maturities and debt issue costs | **708,893** | 725,139 | (16,246) | (2%) | **32%** | 34% |
| Lease liabilities - net of current portion | **68,854** | 73,555 | (4,701) | (6%) | **3%** | 3% |
| Deferred tax liabilities | **72,757** | 71,797 | 960 | 1% | **3%** | 3% |
| Other noncurrent liabilities | **35,032** | 34,738 | 294 | 1% | **2%** | 3% |
| **Total Noncurrent Liabilities** | **885,536** | 905,229 | (19,693) | (2%) | **40%** | 43% |

*Forward*

| | March | December | Horizontal Analysis Increase (Decrease) | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| *(Amounts in millions)* | **2022** | 2021 | Amount | % | **2022** | 2021 |
| Capital stock - common | **P490** | P490 | P - | 0% | **0%** | 0% |
| Capital stock - preferred | **260** | 260 | - | 0% | **0%** | 0% |
| Additional paid-in capital | **120,501** | 120,501 | - | 0% | **6%** | 6% |
| Convertible perpetual securities | **25,158** | 25,158 | - | 0% | **1%** | 1% |
| Equity reserves | **6,574** | 6,281 | 293 | 5% | **0%** | 0% |
| Retained earnings: | | | | | | |
| Appropriated | **27,332** | 25,570 | 1,762 | 7% | **1%** | 1% |
| Unappropriated | **60,256** | 59,856 | 400 | 1% | **3%** | 3% |
| Treasury stock | **(76,780)** | (76,780) | - | 0% | **(3%)** | (4%) |
| **Equity Attributable to** Equity Holders of the Parent Company | **163,791** | 161,336 | 2,455 | 2% | **8%** | 7% |
| Non-controlling Interests | **554,030** | 549,739 | 4,291 | 1% | **25%** | 25% |
| **Total Equity** | **717,821** | 711,075 | 6,746 | 1% | **33%** | 32% |
| **Total Liabilities and Equity** | **P2,206,025** | P2,163,430 | P42,595 | 2% | **100%** | 100% |

Consolidated total assets as at March 31, 2022 amounted to about P2,206,025 million, P42,595 million higher than December 31, 2021. The slight increase was primarily due to higher balance of trade and other receivables, property, plant and equipment and other intangible assets.

The increase in trade and other receivables - net by P22,425 million was mainly attributable to the higher trade customer balances of Petron and the Energy business and higher receivables from the Malaysian Government under the Automatic Pricing Mechanism of Petron Malaysia.

The increase in total biological assets by P504 million was due to higher volume of chicken loaded in the farm and higher cost of feeds.

The increase in prepaid expenses and other current assets by P5,215 million was primarily due to the: (a) higher specific tax and product replenishment claims and unused creditable withholding taxes by Petron and higher prepaid excise taxes of SMB, and (b) additional restricted cash funding for the payment of long-term debt of the Infrastructure business.

The decrease in loans payable by P15,811 million was mainly due to the net payment of loans made by SMC.

The increase in income and other taxes payable by P6,102 million was mainly due to higher VAT payable of the Energy business, higher excise tax liability of Petron Philippines, higher taxable income of the Beer and NAB and Spirits divisions of the Food and Beverage business and Petron Malaysia.

The decrease in dividends payable by P1,439 million was mainly due to payment by SMC on January 7, 2022 of dividends to preferred shareholders which were declared on November 11, 2021.

The increase in total long-term debt, net of debt issue costs, by P44,154 million was primarily due to the issuance of P30,000 million fixed rate Peso-denominated bonds by SMC and availment of foreign term loans by the Group. The increase was partly offset by the payment of Series A fixed rate Peso-denominated bonds by SMC.

The decrease in total lease liabilities by P6,671 million was primarily due to the payments made to PSALM by the Energy business' entities under the IPPA Agreements.

The increase in equity reserves by P293 million was mainly due to the gain on exchange differences on the translation of foreign operations for the period.

The increase in appropriated retained earnings by P1,762 million was mainly due to the additional appropriation for the period for future capital expenditure of SMC Shipping and Lighterage Corporation.

## IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2023** | 2022 |
| Net cash flows provided by operating activities | **P44,803** | P19,913 |
| Net cash flows used in investing activities | **(36,474)** | (25,860) |
| Net cash flows provided by (used in) financing activities | **(79,203)** | 6,979 |

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

Net cash flows used in investing activities included the following:

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2023** | 2022 |
| Additions to property, plant and equipment | **(P16,115)** | (P13,139) |
| Additions to intangible assets | **(11,850)** | (7,925) |
| Increase in other noncurrent assets and others | **(7,169)** | (2,324) |
| Additions to advances to contractors and suppliers | **(2,290)** | (2,934) |
| Additions to investments and advances | **(998)** | (389) |
| Additions to investment property | **(934)** | (440) |
| Additions to investments in debt instruments | **(130)** | (80) |
| Interest received | **2,791** | 910 |
| Proceeds from disposal of investments in debt instruments | **125** | 80 |
| Proceeds from sale of property and equipment and trademarks | **82** | 57 |
| Dividends received | **14** | 17 |
| Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of | **-** | 307 |

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

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2023** | 2022 |
| Payment of short-term loans - net | **(P50,205)** | (P15,990) |
| Proceeds from (payment of) long-term debt - net | **(13,689)** | 38,962 |
| Payment of cash dividends and distributions | **(7,650)** | (8,119) |
| Payments of lease liabilities | **(5,356)** | (7,226) |
| Repurchase of capital securities of a subsidiary | **(1,142)** | - |

The effect of exchange rate changes on cash and cash equivalents amounted to (P4,299) million and P685 million in March 31, 2023 and 2022, 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 Items II "Financial Performance" and III "Financial Position" for the discussion of certain Key Performance Indicators.

| | **March 2023** | December 2022 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | **1.27** | **1.21** |
| Quick Ratio | **0.76** | **0.76** |
| Solvency: | | |
| Debt to Equity Ratio | **2.35** | **2.49** |
| Asset to Equity Ratio | **3.35** | **3.49** |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | **(5.21%)** | **(8.24%)** |
| Interest Rate Coverage Ratio | **2.38** | **1.60** |
| Return on Assets | **1.22%** | **1.01%** |

| | **Periods Ended March 31** | |
|---|---|---|
| | **2023** | 2022 |
| Operating Efficiency: | | |
| Volume Growth | **7%** | 16% |
| Revenue Growth | **9%** | 57% |
| Operating Margin | **10%** | 10% |

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

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

| KPI | Formula |
|---|---|
| Return on Assets | $\dfrac{\text{Net Income*}}{\text{Average Total Assets}}$ |
| Volume Growth | $\left(\dfrac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right)-1$ |
| Revenue Growth | $\left(\dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$ |
| Operating Margin | $\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$ |

** Annualized for quarterly reporting*

## VI. OTHER MATTERS

a. Commitments

The outstanding purchase commitments of the Group amounted to P268,539 million as at March 31, 2023.

These consist mainly of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business and will be funded by available cash, short-term loans and long-term debt.

b. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group does not anticipate within the next 12 months any cash flow or liquidity problems. The Group was not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring payments. There were no significant amounts of the Group's trade payables that have not been paid within the stated trade terms.

c. 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, except for Note 43 (a) of the Audited Consolidated Financial Statements as at December 31, 2022.

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 operations.

e. There are no significant elements of income or loss that did not arise from continuing operations.

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

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.