COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Virgilio S. Jacinto
Contact Person

(02) 632-3143
Company Telephone Number

1	2		3	1		SEC Form 17-Q (1st Quarter for 2019)		0	7		0	9

Month Day — FORM TYPE — Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc. — Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders — Domestic — Foreign

To be accomplished by SEC Personnel concerned

File Number — LCU

Document I. D. — Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2019**

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) 632-3673**
   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, 2019)
Common Shares	**332,886,167***

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

Total Liabilities	**P1,292,463 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2019 (with comparative figures as of December 31, 2018 and for the period ended March 31, 2018) 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, 2019
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	May 15, 2019

ANNEX "A"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 AND DECEMBER 31, 2018
(In Millions)

ASSETS

	2019 Unaudited	2018 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ 253,462	₱ 243,545
Trade and other receivables - net (Notes 1, 4, 8 and 9)	129,657	125,042
Inventories	127,441	125,145
Current portion of biological assets - net	4,065	4,245
Prepaid expenses and other current assets (Notes 1, 4, 8 and 9)	82,080	92,261
Total Current Assets	596,705	590,238
Noncurrent Assets		
Investments and advances - net	50,396	50,754
Investments in equity and debt instruments (Notes 8 and 9)	6,071	6,069
Property, plant and equipment - net (Notes 1 and 5)	463,718	651,408
Right-of-use assets -net (Note 1)	205,027	-
Investment property - net (Note 1)	47,812	33,635
Biological assets - net of current portion	2,943	2,844
Goodwill	120,792	120,867
Other intangible assets - net (Note 1)	254,382	253,534
Deferred tax assets (Note 1)	19,342	19,663
Other noncurrent assets - net (Notes 1, 4, 8 and 9)	68,551	62,180
Total Noncurrent Assets	1,239,034	1,200,954
	₱ 1,835,739	₱ 1,791,192

LIABILITIES AND EQUITY

	2019 Unaudited	2018 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	₱ 204,170	₱ 192,968
Accounts payable and accrued expenses (Notes 1, 4, 8 and 9)	172,457	162,435
Lease liabilities - current portion (Notes 1, 8 and 9)	24,826	22,529
Income and other taxes payable	23,935	19,937
Dividends payable (Note 4)	3,708	3,491
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	55,228	55,872
Total Current Liabilities	484,324	457,232
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	560,226	561,673
Deferred tax liabilities (Note 1)	65,854	65,297
Lease liabilities - net of current portion (Notes 1, 8 and 9)	141,826	130,010
Other noncurrent liabilities (Notes 1, 4, 8 and 9)	40,233	39,848
Total Noncurrent Liabilities	808,139	796,828
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Convertible perpetual securities	25,158	25,158
Equity reserves	11,293	10,923
Retained earnings:		
Appropriated	29,248	29,655
Unappropriated (Note 1)	50,823	48,583
Treasury stock	(76,780)	(76,780)
	160,993	158,790
Non-controlling Interests (Note 1)	382,283	378,342
Total Equity	543,276	537,132
	₱ 1,835,739	₱ 1,791,192

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, 2019 AND 2018
(In Millions, Except Per Share Data)

	2019 Unaudited	2018 Unaudited
SALES (Note 2)	₱ 250,920	₱ 234,341
COST OF SALES	200,054	184,124
GROSS PROFIT	50,866	50,217
SELLING AND ADMINISTRATIVE EXPENSES	(20,174)	(18,189)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(13,026)	(8,241)
INTEREST INCOME	2,725	1,376
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	208	46
GAIN ON SALE OF PROPERTY AND EQUIPMENT	33	8
OTHER CHARGES - Net (Note 3)	(899)	(6,438)
INCOME BEFORE INCOME TAX	19,733	18,779
INCOME TAX EXPENSE	7,253	5,229
NET INCOME	₱ 12,480	₱ 13,550
Attributable to:		
Equity holders of the Parent Company	₱ 2,290	₱ 1,716
Non-controlling interests	10,190	11,834
	₱ 12,480	₱ 13,550
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6):	₱ 5.71	₱ 3.97

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, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited
NET INCOME	₱ 12,480	₱ 13,550
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	-	1
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(3)	20
INCOME TAX BENEFIT (EXPENSE)	(4)	1
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	89	(139)
	82	(117)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	696	4,100
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	(3)
INCOME TAX BENEFIT	-	1
NET LOSS ON CASH FLOW HEDGES	(165)	-
INCOME TAX BENEFIT	49	-
	585	4,098
OTHER COMPREHENSIVE INCOME - Net of tax	667	3,981
TOTAL COMPREHENSIVE INCOME - Net of tax	₱ 13,147	₱ 17,531
Attributable to:		
Equity holders of the Parent Company	₱ 2,447	₱ 2,509
Non-controlling interests	10,700	15,022
	₱ 13,147	₱ 17,531

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, 2019 AND 2018
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves					Retained Earnings		Treasury Stock		Total		
	Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2019, As previously reported (Audited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,899)**	**₱ (114)**	**₱ 1,444**	**₱ (1,662)**	**₱ 13,154**	**₱ 29,655**	**₱ 48,583**	**₱ (28,457)**	**₱ (48,323)**	**₱ 158,790**	**₱ 378,342**	**₱ 537,132**
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 (Note 1)	-	-	-	-	-	-	-	-	-	-	**(411)**	-	-	**(411)**	**(569)**	**(980)**
As of January 1, 2019, As adjusted	**490**	**260**	**120,501**	**25,158**	**(1,899)**	**(114)**	**1,444**	**(1,662)**	**13,154**	**29,655**	**48,172**	**(28,457)**	**(48,323)**	**158,379**	**377,773**	**536,152**
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	**169**	-	-	-	-	-	**169**	**527**	**696**
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	**54**	**3**	-	-	-	-	-	**57**	**32**	**89**
Net loss on cash flow hedges, net of tax	-	-	-	-	-	**(67)**	-	-	-	-	-	-	-	**(67)**	**(49)**	**(116)**
Net loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	**(2)**	-	-	-	-	-	-	**(2)**	-	**(2)**
Other comprehensive income (loss)	-	-	-	-	-	**(67)**	**52**	**172**	-	-	-	-	-	**157**	**510**	**667**
Net income	-	-	-	-	-	-	-	-	-	-	**2,290**	-	-	**2,290**	**10,190**	**12,480**
Total comprehensive income (loss)	-	-	-	-	-	**(67)**	**52**	**172**	-	-	**2,290**	-	-	**2,447**	**10,700**	**13,147**
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	-	**213**	-	**(46)**	-	-	**167**	**788**	**955**
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	**(407)**	**407**	-	-	-	-	-
Cash dividends:																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(2,998)**	**(2,998)**
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(2,364)**	**(2,364)**
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(1,616)**	**(1,616)**
As of March 31, 2019 (Unaudited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,899)**	**₱ (181)**	**₱ 1,496**	**₱ (1,490)**	**₱ 13,367**	**₱ 29,248**	**₱ 50,823**	**₱ (28,457)**	**₱ (48,323)**	**₱ 160,993**	**₱ 382,283**	**₱ 543,276**
As of January 1, 2018 (Audited)	₱ 490	₱ 260	₱ 120,501	₱ 25,158	₱ (1,685)	₱ -	₱ 1,395	₱ (1,693)	₱ (4,059)	₱ 25,742	₱ 46,262	₱ (28,457)	₱ (48,323)	₱ 135,591	₱ 362,444	₱ 498,035
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	873	-	-	-	-	-	873	3,227	4,100
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	(101)	7	-	-	-	-	-	(94)	(45)	(139)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	13	-	-	-	-	-	-	13	6	19
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	-	-	1	-	1
Other comprehensive income (loss)	-	-	-	-	1	-	(88)	880	-	-	-	-	-	793	3,188	3,981
Net income	-	-	-	-	-	-	-	-	-	-	1,716	-	-	1,716	11,834	13,550
Total comprehensive income (loss)	-	-	-	-	1	-	(88)	880	-	-	1,716	-	-	2,509	15,022	17,531
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	-	(2,232)	-	(263)	-	-	(2,495)	5,885	3,390
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(132)	132	-	-	-	-	-
Cash dividends:																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,425)	(2,425)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,364)	(2,364)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,719)	(2,719)
As of March 31, 2018 (Unaudited)	₱ 490	₱ 260	₱ 120,501	₱ 25,158	₱ (1,684)	₱ -	₱ 1,307	₱ (813)	₱ (6,291)	₱ 25,610	₱ 47,847	₱ (28,457)	₱ (48,323)	₱ 135,605	₱ 375,843	₱ 511,448

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In Millions)

		2019 Unaudited		2018 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱	19,733	₱	18,779
Adjustments for:				
Interest expense and other financing charges		13,026		8,241
Depreciation, amortization and others - net		8,440		18,758
Interest income		(2,725)		(1,376)
Equity in net earnings of associates and joint ventures		(208)		(46)
Gain on sale of property and equipment		(33)		(8)
Operating income before working capital changes		38,233		44,348
Changes in noncash current assets, certain current liabilities and others		11,286		(21,265)
Cash generated from operations		49,519		23,083
Interest and other financing charges paid		(12,966)		(5,899)
Income taxes paid		(2,532)		(1,788)
Net cash flows provided by operating activities		34,021		15,396
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment		(12,815)		(7,075)
Increase in other noncurrent assets and others		(12,100)		(3,388)
Additions to investments and advances		(330)		(786)
Acquisition of subsidiaries, net of cash and cash equivalents acquired		(9)		(97,334)
Dividends received		6		2
Proceeds from sale of investments and property and equipment		267		39
Interest received		2,434		1,299
Net cash flows used in investing activities		(22,547)		(107,243)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		266,406		263,456
Long-term borrowings		3,553		109,938
Payments of:				
Short-term borrowings		(255,350)		(237,699)
Long-term borrowings		(5,585)		(5,043)
Cash dividends and distributions paid to non-controlling shareholders		(6,762)		(6,022)
Payments of lease liabilities		(4,949)		(6,330)
Increase (decrease) in non-controlling interests and others		5		(367)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary		-		24,878
Redemption of undated subordinated capital securities of a subsidiary		-		(21,309)
Net cash flows provided by (used in) financing activities		(2,682)		121,502
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		1,125		683
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,917		30,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		243,545		206,556
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱	253,462	₱	236,894

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, 2019
(In Millions)

	Total	Current	Past Due 1 - 30 Days	Past Due 31 - 60 Days	Past Due Over 60 Days
Trade	P 81,858	P 60,393	P 6,368	P 2,622	P 12,475
Non-trade	48,910	22,399	1,375	859	24,277
Amounts Owed by Related Parties	11,838	10,683	344	62	749
Total	142,606	**P 93,475**	**P 8,087**	**P 3,543**	**P 37,501**
Less allowance for impairment losses	12,949				
Net	**P 129,657**				

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 2019 and comparative financial statements for the same period in 2018 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

<u>Adoption of New and Amended Standards and Interpretation</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretations as part of PFRS.

New and Amended Standards and Interpretation Adopted in 2019

The Group has adopted the following PFRS effective January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

  As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 3.9% to 10.3% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

ASSETS	
Trade and other receivables - net	P98
Prepaid expenses and other current assets	(415)
Property, plant and equipment - net	(195,028)
Right-of-use assets - net	206,868
Investment property - net	10,744
Other intangible assets - net	(1,190)
Deferred tax assets	206
Other noncurrent assets - net	(3,175)
	P18,108
LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	(P1,152)
Lease liabilities	20,716
Deferred tax liabilities	(350)
Other noncurrent liabilities	(126)
Total Liabilities	19,088
Retained earnings	(411)
Non-controlling interests	(569)
Total Equity	(980)
	P18,108

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	P34,166
Recognition exemption for:	
Short-term leases	(684)
Extension and termination options reasonably certain to be exercised	2,089
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(14,855)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	P20,716
Finance lease liabilities recognized as of December 31, 2018	152,539
Lease liabilities recognized as of January 1, 2019	P173,255

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or financial assets at fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:

  - Previously Held Interest in a Joint Operation *(*Amendments to PFRS 3*, Business Combinations* and PFRS 11*, Joint Arrangements)*. The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

  - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

  - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23*, Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

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

  PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

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

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

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

2. **Segment Information**

<u>Operating Segments</u>
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, jellybased snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffeerelated products, (ii) the production and sale of feeds, (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats, and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based, and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

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

The energy segment sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

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

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

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

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Sales																
External sales	**P75,577**	P66,069	**P6,299**	P5,465	**P33,853**	P23,902	**P123,254**	P128,093	**P6,358**	P5,888	**P5,579**	P4,924	**P–**	P –	**P250,920**	P234,341
Inter-segment sales	**78**	18	**2,541**	3,092	**823**	759	**1,304**	1,019	**1**	–	**4,583**	3,557	**(9,330)**	(8,445)	**–**	–
Total sales	**P75,655**	P66,087	**P8,840**	P8,557	**P34,676**	P24,661	**P124,558**	P129,112	**P6,359**	P5,888	**P10,162**	P8,481	**(P9,330)**	(P8,445)	**P250,920**	P234,341
Results																
Segment results	**P10,731**	P10,689	**P828**	P706	**P9,655**	P7,805	**P5,898**	P9,856	**P3,104**	P3,088	**P808**	P97	**(P332)**	(P213)	**P30,692**	P32,028

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Timing of revenue recognition														
Sales recognized at point in time	**P75,560**	P66,047	**P6,146**	P5,326	**P–**	P–	**P123,254**	P128,093	**P–**	P–	**P4,525**	P4,052	**P209,485**	P203,518
Sales recognized over time	**17**	22	**153**	139	**33,853**	23,902	**–**	–	**6,358**	5,888	**1,054**	872	**41,435**	30,823
Total external sales	**P75,577**	P66,069	**P6,299**	P5,465	**P33,853**	P23,902	**P123,254**	P128,093	**P6,358**	P5,888	**P5,579**	P4,924	**P250,920**	P234,341

3. Other Charges

Other income (charges) consists of:

	March 31	
	2019	2018
Construction revenue	**P3,339**	P1,380
Gain (loss) on foreign exchange - net	**242**	(8,128)
Gain (loss) on derivatives - net	**(1,270)**	1,254
Construction costs	**(3,339)**	(1,380)
Others	**129**	436
	(P899)	(P6,438)

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. 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 pass through the profit or loss before it is capitalized as toll road, airport, port and water concession rights.

4. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of March 31, 2019 and December 31, 2018:

	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 31,2019**	**P–**	**P–**	**P–**	**P11,264**	On demand;	Unsecured
	December 31, 2018	–	–	–	11,281	interest bearing	
	March 31,2019	**–**	**–**	**–**	**221**	On demand;	Unsecured
	December 31, 2018	–	–	–	221	non-interest	
Retirement Plans	**March 31,2019**	**76**	**–**	**9,590**	**38**	On demand;	Unsecured;
	December 31, 2018	399	–	9,516	–	interest bearing	no impairment
Associates	**March 31,2019**	**694**	**12**	**1,629**	**176**	On demand;	Unsecured;
	December 31, 2018	2,905	251	1,564	193	interest and non-Interest bearing	no impairment
	March 31,2019	**–**	**–**	**–**	**24,112**	Less than 1	Unsecured and
	December 31, 2018	–	–	–	23,226	to 10 years; Interest bearing	secured
Joint Ventures	**March 31,2019**	**14**	**278**	**686**	**190**	On demand;	Unsecured;
	December 31, 2018	76	1,181	684	64	non-interest bearing	no impairment
Shareholders in Subsidiaries	**March 31,2019**	**14**	**17**	**204**	**2,511**	On demand;	Unsecured;
	December 31, 2018	125	103	147	2,516	non-interest bearing	no impairment
Others	**March 31,2019**	**653**	**848**	**737**	**8,031**	On demand;	Unsecured;
	December 31, 2018	2,199	1,499	496	7,851	non-interest bearing	no impairment
Total	**March 31,2019**	**P1,451**	**P1,155**	**P12,846**	**P46,543**		
Total	December 31, 2018	P5,704	P3,034	P12,407	P45,352		

a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest will accrue beginning on the relevant year when SMC has commenced the management and operations of its Airport Project, a project that involves the construction of an international airport in Bulacan. This payable has no definite payment terms and considered payable upon demand.

b. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

c. Amounts owed to related parties consist of trade payables and professional fees.

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

5. **Property, Plant and Equipment**

Property, plant and equipment consist of:

March 31, 2019 and December 31, 2018

	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, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
Additions	1,699	481	67	426	424	5,195	71	−	38,962	47,325
Disposals/retirement	(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	−	(2)	(2,728)
Reclassifications	(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	−	(46,469)	(22,571)
Acquisition of subsidiaries	906	975	53,226	−	156	2,382	37	−	23,484	81,166
Currency translation adjustments	302	534	408	370	246	683	(9)	−	221	2,755
December 31, 2018 (Audited)	60,781	47,400	379,217	169,971	17,969	160,249	5,629	5,594	85,298	932,108
Adjustment due to adoption of PFRS 16	(877)	(1,291)	(242,619)	(1,816)	(176)	−	−	−	10	(246,769)
December 31, 2018 (as adjusted)	59,904	46,109	136,598	168,155	17,793	160,249	5,629	5,594	85,308	685,339
Additions	141	288	4	375	628	641	2	−	10,736	12,815
Disposals/retirement	−	(15)	(2)	−	(257)	(347)	−	−	(82)	(703)
Reclassifications	175	2,470	−	33	189	804	17	−	(3,358)	330
Acquisition of subsidiaries	16	50	−	−	−	29	−	−	−	95
Currency translation adjustments	(252)	(71)	(73)	386	139	352	3	−	31	515
March 31, 2019 (Unaudited)	**59,984**	**48,831**	**136,527**	**168,949**	**18,492**	**161,728**	**5,651**	**5,594**	**92,635**	**698,391**
Accumulated Depreciation and Amortization										
January 1, 2018 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	−	231,798
Depreciation and amortization	191	1,729	10,740	6,308	1,141	8,127	274	9	−	28,519
Disposals/retirement	(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	−	−	(2,390)
Reclassifications	(1,034)	(7,828)	−	−	(246)	(349)	(12)	−	−	(9,469)
Acquisition of subsidiaries	−	75	17,973	−	31	732	32	−	−	18,843
Currency translation adjustments	13	234	126	257	126	358	(2)	−	−	1,112
December 31, 2018 (Audited)	3,422	18,936	75,571	51,637	12,604	99,692	1,658	4,893	−	268,413
Adjustment due to adoption of PFRS 16	−	(636)	(50,849)	(193)	(63)	−	−	−	−	(51,741)
December 31, 2018 (as adjusted)	3,422	18,300	24,722	51,444	12,541	99,692	1,658	4,893	−	216,672
Depreciation and amortization	45	435	937	1,583	629	1,950	78	1	−	5,658
Disposals/retirement	−	(3)	−	−	(243)	(293)	−	−	−	(539)
Reclassifications	(30)	708	−	(18)	15	(576)	3	−	−	102
Acquisition of subsidiaries	−	7	−	−	−	23	−	−	−	30
Currency translation adjustments	(63)	26	(29)	171	80	199	−	−	−	384
March 31, 2019 (Unaudited)	**3,374**	**19,473**	**25,630**	**53,180**	**13,022**	**100,995**	**1,739**	**4,894**	**−**	**222,307**

Forward

	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
Accumulated Impairment Losses										
January 1, 2018 (Audited)	P266	P2,315	P−	P−	P−	P8,616	P27	P573	P−	P11,797
Impairment	−	454	−	−	−	163	−	−	−	617
Disposals/retirement	−	−	−	−	−	(13)	−	−	−	(13)
Reclassifications	(266)	(16)	−	−	−	26	−	−	−	(256)
Currency translation adjustments	−	(2)	−	−	−	145	(1)	−	−	142
December 31, 2018 (Audited)	−	2,751	−	−	−	8,937	26	573	−	12,287
Disposals and reclassifications	3	(76)	−	−	−	−	−	−	−	(73)
Currency translation adjustments	−	48	−	−	−	104	−	−	−	152
March 31, 2019 (Unaudited)	**3**	**2,723**	**−**	**−**	**−**	**9,041**	**26**	**573**	**−**	**12,366**
Carrying Amount										
December 31, 2018 (Audited)	P57,359	P25,713	P303,646	P118,334	P5,365	P51,620	P3,945	P128	P85,298	P651,408
March 31, 2019 (Unaudited)	**P56,607**	**P26,635**	**P110,897**	**P115,769**	**P5,470**	**P51,692**	**P3,886**	**P127**	**P92,635**	**P463,718**

March 31, 2018

	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, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
Additions	210	2	−	109	43	328	29	−	6,354	7,075
Disposals/retirement	−	(170)	−	(2)	(231)	(166)	−	−	−	(569)
Reclassifications	(90)	971	11,612	102	(113)	1,957	1,064	−	(15,005)	498
Acquisition of subsidiaries	873	974	53,383	−	−	2,331	38	−	23,483	81,082
Currency translation adjustments	826	1,579	72	1,189	789	2,355	8	−	172	6,990
March 31, 2018 (Unaudited)	68,955	58,475	361,678	168,813	17,929	150,743	4,944	5,594	84,106	921,237
Accumulated Depreciation and Amortization										
January 1, 2018 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	−	231,798
Depreciation and amortization	61	557	2,238	1,557	245	1,948	59	4	−	6,669
Disposals/retirement	−	(167)	−	(2)	(224)	(148)	−	−	−	(541)
Reclassifications	31	267	(37)	(1)	(271)	75	(9)	−	−	55
Acquisition of subsidiaries	−	75	18,004	−	−	696	32	−	−	18,807
Currency translation adjustments	51	795	28	855	437	1,269	6	−	−	3,441
March 31, 2018 (Unaudited)	4,453	26,675	66,973	47,497	12,397	95,859	1,487	4,888	−	260,229
Accumulated Impairment Losses										
January 1, 2018 (Audited)	266	2,315	−	−	−	8,616	27	573	−	11,797
Reclassifications	−	−	−	−	−	9	−	−	−	9
Currency translation adjustments	−	235	−	−	−	659	1	−	−	895
March 31, 2018 (Unaudited)	266	2,550	−	−	−	9,284	28	573	−	12,701
Carrying Amount										
March 31, 2018 (Unaudited)	P64,236	P29,250	P294,705	P121,316	P5,532	P45,600	P3,429	P133	P84,106	P648,307

Depreciation and amortization charged to operations amounted to P5,658 and P6,669 for the periods ended March 31, 2019 and 2018, respectively.

6. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and diluted EPS is computed as follows:

	March 31	
	2019	2018
Net income attributable to equity holders of the Parent Company	**P2,290**	P1,716
Less dividends on CPS for the period	**404**	404
Net income attributable to common shareholders of the Parent Company (a)	**P1,886**	P1,312
Weighted average number of common shares outstanding (in millions) (b)	**330**	330
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	**P5.71**	P3.97

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

As of March 31, 2019 and 2018, the Parent Company has no dilutive debt or equity instruments.

7. Dividends

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

2019

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 14, 2019	**March 14, 2019**	**March 15, 2019**	**P279.00**

2018

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 15, 2018	March 15, 2018	March 16, 2018	P279.00

On May 9, 2019, the BOD of the Parent Company declared cash dividends at P279.00 per preferred share, payable on May 10, 2019 to shareholders owning preferred shares as of May 9, 2019.

8. **Financial Risk and Capital Management Objectives and Policies**

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

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

March 31, 2019	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P29,037**	**P29,075**	**P58,791**	**P57,769**	**P48,465**	**P142,187**	**P365,324**
Interest rate	**5.4583% - 12.00%**	**4.9925% - 9.8754%**	**4.0032% - 9.885%**	**5.1923% - 9.885%**	**4.5219% - 9.885%**	**5.1792% - 9.885%**	
Foreign currency-denominated (expressed in Philippine peso)	**1,977**	**2,542**	**2,675**	**7,763**	**28,147**	**13,240**	**56,344**
Interest rate	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.875% - 5.5959%**	**5.5959%**	
Floating Rate							
Philippine peso-denominated	**1,069**	**1,225**	**1,687**	**2,421**	**587**	**–**	**6,989**
Interest rate	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**–**	
Foreign currency-denominated (expressed in Philippine peso)	**23,539**	**30,553**	**15,895**	**72,037**	**42,358**	**9,087**	**193,469**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P55,622	**P63,395**	**P79,048**	**P139,990**	**P119,557**	**P164,514**	**P622,126**

December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,488	P28,159	P51,765	P49,110	P49,465	P161,404	P369,391
Interest rate	5.4583% - 12.00%	4.9925% - 8.6615%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	1,949	2,477	2,607	1,838	33,965	12,222	55,058
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	1,239	985	1,503	2,347	726	–	6,800
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	–	
Foreign currency-denominated (expressed in Philippine peso)	23,558	20,051	26,404	14,956	99,541	8,756	193,266
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P56,234	P51,672	P82,279	P68,251	P183,697	P182,382	P624,515

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,005 and P2,001 for the period ended March 31, 2019 and for the year ended December 31, 2018, 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, 2019		December 31, 2018	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,694**	**P141,366**	US$2,444	P128,554
Trade and other receivables	**431**	**22,731**	770	40,482
Prepaid expenses and other current assets	**11**	**587**	17	926
Noncurrent receivables	**62**	**3,283**	87	4,552
	3,198	**167,967**	3,318	174,514
Liabilities				
Loans payable	**866**	**45,457**	821	43,147
Accounts payable and accrued expenses	**1,568**	**82,426**	1,475	77,574
Long-term debt (including current maturities)	**4,758**	**249,813**	4,722	248,324
Lease liabilities (including current portion)	**1,489**	**78,105**	1,499	78,799
Other noncurrent liabilities	**449**	**23,586**	457	24,040
	9,130	**479,387**	8,974	471,884
Net foreign currency-denominated monetary liabilities	**(US$5,932)**	**(P311,420)**	(US$5,656)	(P297,370)

The Group reported net gain (losses) on foreign exchange amounting to P242 and (P8,128) for the periods ended March 31, 2019 and 2018, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 3). 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, 2019	**52.50**
December 31, 2018	52.58
March 31, 2018	52.16
December 31, 2017	49.93

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, 2019	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,320)**	**(P1,999)**	**P2,320**	**P1,999**
Trade and other receivables	**(274)**	**(429)**	**274**	**429**
Prepaid expenses and other current assets	**(10)**	**(8)**	**10**	**8**
Noncurrent receivables	**(11)**	**(59)**	**11**	**59**
	(2,615)	**(2,495)**	**2,615**	**2,495**
Loans payable	**725**	**655**	**(725)**	**(655)**
Accounts payable and accrued expenses	**1,135**	**1,593**	**(1,135)**	**(1,593)**
Long-term debt (including current maturities)	**4,016**	**3,553**	**(4,016)**	**(3,553)**
Lease liabilities (including current portion)	**1,486**	**1,042**	**(1,486)**	**(1,042)**
Other noncurrent liabilities	**449**	**358**	**(449)**	**(358)**
	7,811	**7,201**	**(7,811)**	**(7,201)**
	P5,196	**P4,706**	**(P5,196)**	**(P4,706)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2018	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,031)	(P1,835)	P2,031	P1,835
Trade and other receivables	(262)	(740)	262	740
Prepaid expenses and other current assets	(8)	(16)	8	16
Noncurrent receivables	(30)	(77)	30	77
	(2,331)	(2,668)	2,331	2,668
Loans payable	575	649	(575)	(649)
Accounts payable and accrued expenses	937	1,404	(937)	(1,404)
Long-term debt (including current maturities)	4,016	3,517	(4,016)	(3,517)
Finance lease liabilities (including current portion)	785	1,050	(785)	(1,050)
Other noncurrent liabilities	307	366	(307)	(366)
	6,620	6,986	(6,620)	(6,986)
	P4,289	P4,318	(P4,289)	(P4,318)

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

Commodity Price Risk

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

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

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as 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 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, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P253,462**	**P253,462**	**P253,462**	**P–**	**P–**	**P–**
Trade and other receivables – net	**129,657**	**129,657**	**129,657**	**–**	**–**	**–**
Derivative assets (included under "Prepaid expenses, other current assets" and "Other noncurrent assets" accounts)	**1,774**	**1,774**	**1,074**	**700**	**–**	**–**
Investments at FVPL (included under "Prepaid expenses and other current assets" account)	**251**	**251**	**251**	**–**	**–**	**–**
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,939**	**5,960**	**60**	**45**	**127**	**5,728**
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**226**	**246**	**49**	**76**	**121**	**–**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**20,250**	**20,464**	**–**	**3,361**	**16,497**	**606**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**11,567**	**11,567**	**5,387**	**6,180**	**–**	**–**
Financial Liabilities						
Loans payable	**204,170**	**204,979**	**204,979**	**–**	**–**	**–**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO), deferred income and other current non-financial liabilities)	**170,015**	**170,324**	**170,324**	**–**	**–**	**–**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**1,939**	**1,939**	**1,043**	**896**	**–**	**–**
Long-term debt (including current maturities)	**615,454**	**773,914**	**88,108**	**93,381**	**400,661**	**191,764**
Lease liabilities (including current portion)	**166,652**	**192,427**	**30,620**	**32,553**	**79,532**	**49,722**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), accrual for mine rehabilitation and decommissioning, and other noncurrent non-financial liabilities)	**29,435**	**32,086**	**–**	**17,972**	**9,571**	**4,543**

December 31, 2018	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	P243,545	P243,545	P243,545	P−	P−	P−
Trade and other receivables - net	125,042	125,042	125,042	−	−	−
Derivative assets (included under “Prepaid expenses and other current assets” and “Other noncurrent assets” accounts)	1,545	1,545	1,174	371	−	−
Financial assets at FVPL (included under “Prepaid expenses and other current assets” account)	254	254	254	−	−	−
Financial assets at FVOCI (included under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments accounts)	5,937	6,026	60	46	235	5,685
Financial assets at amortized cost (incuded under “Prepaid expenses and other current assets” and “Investments in equity and debt instruments” accounts)	226	247	49	77	121	−
Noncurrent receivables and deposits - net (included under “Other noncurrent assets - net” account)	19,221	19,516	−	2,870	16,304	342
Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts)	14,032	14,032	9,038	4,994	−	−
Financial Liabilities						
Loans payable	192,968	193,914	193,914	−	−	−
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	158,415	158,724	158,724	−	−	−
Derivative liabilities (included under “Accounts payable and accrued expenses” and “Other noncurrent liabilities” accounts)	2,495	2,495	1,929	566	−	−
Long-term debt (including current maturities)	617,545	783,282	89,247	82,220	400,027	211,788
Finance lease liabilities (including current portion)	152,539	169,173	27,042	29,698	76,222	36,211
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	29,216	31,709	−	17,776	9,330	4,603

Credit Risk

Credit risk is the risk of financial loss to the Group if 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 non-current 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, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand)	**P251,407**	P240,014
Trade and other receivables - net	**129,657**	125,042
Derivative assets	**1,774**	1,545
Investment in debt instruments at FVOCI	**211**	206
Investmetns in debt instruments at amortized cost	**226**	226
Noncurrent receivables and deposits - net	**20,250**	19,221
Restricted cash	**11,567**	14,032
	P415,092	P400,286

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

	March 31, 2019					
	Financial Assets at Amortized Cost					
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P251,407**	**P–**	**P–**	**P–**	**P–**	**P251,407**
Trade and other receivables	**129,657**	**–**	**12,949**	**–**	**–**	**142,606**
Derivative assets	**–**	**–**	**–**	**1,774**	**–**	**1,774**
Investment in debt instruments at FVOCI	**–**	**–**	**–**	**–**	**211**	**211**
Investment in debt instruments at amortized cost	**40**	**186**	**–**	**–**	**–**	**226**
Noncurrent receivables and deposits	**–**	**20,250**	**476**	**–**	**–**	**20,276**
Restricted cash	**5,387**	**6,180**	**–**	**–**	**–**	**11,567**

	December 31, 2018					
	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)	P240,014	P–	P–	P–	P–	P240,014
Trade and other receivables	125,042	–	13,223	–	–	138,265
Derivative assets	–	–	–	1,545	–	1,545
Investment in debt instruments at FVOCI	–	–	–	–	206	206
Investment in debt instruments at amortized cost	40	186	–	–	–	226
Noncurrent receivables and deposits	–	19,221	493	–	–	19,714
Restricted cash	9,038	4,994	–	–	–	14,032

The aging of receivables is as follows:

March 31, 2019	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P60,393**	**P22,399**	**P10,683**	**P93,475**
Past due:				
1 - 30 days	**6,368**	**1,375**	**344**	**8,087**
31 - 60 days	**2,622**	**859**	**62**	**3,543**
61 - 90 days	**1,193**	**369**	**9**	**1,571**
Over 90 days	**11,282**	**23,908**	**740**	**35,930**
	P81,858	**P48,910**	**P11,838**	**P142,606**

December 31, 2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P52,659	P22,353	P10,318	P85,330
Past due:				
1 - 30 days	8,450	1,048	340	9,838
31 - 60 days	2,800	3,398	9	6,207
61 - 90 days	1,071	1,710	2	2,783
Over 90 days	11,540	21,749	818	34,107
	P76,520	P50,258	P11,487	P138,265

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, financial assets at FVOCI, financial assets at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

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

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

Financial and Other Risks Relating to Livestock

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

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

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

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

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

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

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

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

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

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

9. 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.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's investments in equity and debt instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

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

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

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

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

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

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

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2019		December 31, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P253,462**	**P253,462**	P243,545	P243,545
Trade and other receivables - net	**129,657**	**129,657**	125,042	125,042
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,774**	**1,774**	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**251**	**251**	254	254
Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)	**5,939**	**5,939**	5,937	5,937
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**226**	**226**	226	226
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**20,250**	**20,250**	19,221	19,221
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**11,567**	**11,567**	14,032	14,032
Financial Liabilities				
Loans payable	**204,170**	**204,170**	192,968	192,968
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**170,015**	**170,015**	158,415	158,415
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**1,939**	**1,939**	2,495	2,495
Long-term debt (including current maturities)	**615,454**	**642,805**	617,545	623,889
Lease liabilities (including current portion)	**166,652**	**166,652**	152,539	152,539
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**29,435**	**29,435**	29,216	29,216

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 of reporting date. Discount rates used for Philippine peso-denominated loans range from 5.5% to 6.1% and 5.2% to 7.1% as of March 31, 2019 and December 31, 2018, respectively. The discount rates used for foreign currency-denominated loans range from 2.2% to 2.7% and 2.5% to 3.0% as of of March 31, 2019 and December 31, 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging Accounting

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

Freestanding Derivatives

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in fair value or cash flows of the hedging instrument are expected to offset the changes in fair value or 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 accumulated in the hedging reserve. 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 the host contract is not a financial asset and 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, 2019	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk				
Currency forwards				
Notional amount	**US$15**	**US$–**	**US$–**	**US$15**
Average forward rate	**P54.27**	**–**	**–**	
Call spread swaps				
Notional amount	**US$22**	**US$184**	**US$324**	**US$530**
Average strike rate	**P53.87 to P57.37**	**P52.85 to P56.15**	**P52.83 to P56.15**	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	**US$–**	**US$20**	**US$150**	**US$170**
Strike rate	**–**	**P47.00 to P57.50**	**P47.00 to P57.50**	
Fixed interest rate	**–**	**5.75%**	**5.75% to 5.80%**	

	Maturity			
December 31, 2018	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk				
Currency forwards				
Notional amount	US$15	US$–	US$–	US$15
Average forward rate	P54.27	–	–	
Call spread swaps				
Notional amount	US$22	US$65	US$220	US$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US$–	US$–	US$120	US$120
Strike rate	–	–	P54.31	
Fixed interest rate	5.80%	5.80%	5.80%	

The following are the amounts relating to hedged items:

March 31, 2019	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk			
US dollar-denominated borrowings	**P38**	**P−**	**(P73)**
Foreign currency and interest rate risks			
US dollar-denominated borrowings	**89**	**(608)**	**369**

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P11	P−	(P77)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	1,020	(538)	419

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, 2019	Notional Amount	Carrying Amount Assets	Carrying Amount Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign currency risk:									
Currency forwards	**US$15**	**P–**	**P22**	**Accounts payable and accrued expenses**	**(P1)**	**(P6)**	**P1**	**P4**	**Other income (charges)**
Call spread swaps	**530**	**712**	**(590)**	**Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(37)**	**(54)**	**(74)**	**61**	**Interest expense and other financing charges, and Other income (charges)**
Foreign currency and interest rate risk:									
Cross currency swap	**170**	**–**	**574**	**Other noncurrent liabilities**	**(89)**	**(72)**	**67**	**1**	**Interest expense and other financing charges, and Other income (charges)**

December 31, 2018	Notional Amount	Carrying Amount Assets	Carrying Amount Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign currency risk:									
Currency forwards	US$15	P–	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other income (charges)
Call spread swaps	307	386	332	Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	–	(183)	–	70	Interest expense and other financing charges, and Other income (charges)
Foreign currency and interest rate risk:									
Cross currency swap	120	–	377	Other noncurrent liabilities	(1,020)	598	252	–	Interest expense and other financing charges, and Other income (charges)

No ineffectiveness was recognized in the 2019 and 2018 consolidated statement 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, 2019		December 31, 2018	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance, beginning	**(P538)**	**P342**	P−	P−
Changes in fair value:				
Foreign currency risk	**73**	**(60)**	(11)	(187)
Foreign currency risk and interest rate risk	**(167)**	**(72)**	(1,020)	598
Amount reclassified to profit or loss	**(6)**	**66**	263	77
Tax effect	**30**	**20**	230	(146)
Balance, ending	**(P608)**	**P296**	(P538)	P342

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, currency and commodity derivatives entered into by the Group.

Interest Rate Swap

As of March 31, 2019 and December 31, 2018, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P427 and P1,104 as of March 31, 2019 and December 31, 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$387 and US$912 as of March 31, 2019 and December 31, 2018, respectively, and with various maturities in 2019. The net negative fair value of these currency forwards amounted to P38 and P297 as of March 31, 2019 and December 31, 2018, respectively.

Currency Options

As of March 31, 2019 and December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US$498 and US$370, respectively, and with various maturities in 2019. The net positive (negative) fair value of these currency options amounted to P71 and (P10) as of March 31, 2019 and December 31, 2018, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,000 and 1,500 metric tons as of March 31, 2019 and December 31, 2018, respectively. The negative fair value of these swaps amounted to P2 and P10 as of March 31, 2019 and December 31, 2018, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 13.7 and 17.0 million barrels as of March 31, 2019 and December 31, 2018, respectively. The positive fair value of these swaps amounted to P687 and P489 as of March 31, 2019 and December 31, 2018, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 60,000 metric tons as of March 31, 2019 and December 31, 2018. The positive fair value of these swaps amounted to P45 and P96 as of March 31, 2019 and December 31, 2018, respectively.

Commodity Options

As of March 31, 2019, the Group has no outstanding commodity options. As of December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as of December 31, 2018.

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$171 and US$187 as of March 31, 2019 and December 31, 2018, 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 (P27) and P87 as of March 31, 2019 and December 31, 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,270), P1,254, and P805 in March 31, 2019, 2018 and December 31, 2018, respectively.

Fair Value Changes on Derivatives

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

	March 31, 2019	December 31, 2018
Balance, beginning	**(P950)**	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(162)**	(453)
Not designated as accounting hedge	**(1,221)**	853
	(2,333)	(2,754)
Less fair value of settled instruments	**(2,168)**	(1,804)
Balance, ending	**(P165)**	(P950)

Fair Value Measurements

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Fair Value Hierarchy

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

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

	March 31, 2019			December 31, 2018		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P−**	**P1,774**	**P1,774**	P−	P1,545	P1,545
Financial assets at FVPL	**−**	**251**	**251**	−	254	254
Financial assets at FVOCI	**382**	**5,557**	**5,939**	386	5,551	5,937
Financial Liabilities						
Derivative liabilities	**−**	**1,939**	**1,939**	−	2,495	2,495

The Group has no financial instruments valued based on Level 3 as of March 31, 2019 and December 31, 2018. For the period ended March 31, 2019 and for the year ended December 31, 2018, 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.

10. **Other Matters**

a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

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

c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 6, Note 24 (c) and Note 43 (a) of the 2018 Audited Consolidated Financial Statements, that remain outstanding as of March 31, 2019. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

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

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2019.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2019. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

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, 2019 and December 31, 2018 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2019 and 2018 for operating efficiency ratios.

	March 2019	December 2018
Liquidity:		
Current Ratio	**1.23**	1.29
Solvency:		
Debt to Equity Ratio	**2.38**	2.33
Asset to Equity Ratio	**3.38**	3.33
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**4.74%**	4.76%
Interest Rate Coverage Ratio	**2.51**	2.63

	Period Ended March 31	
	2019	2018
Operating Efficiency:		
Volume Growth	**8%**	6%
Revenue Growth	**7%**	20%
Operating Margin	**12%**	14%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
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	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left[\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right]-1$
Revenue Growth	$\left[\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right]-1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

ANNEX "B"

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2019 (with comparative figures as of December 31, 2018 and for the period ended March 31, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2019, 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. 2019 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS

Masinloc Power Partners Co. Ltd. (MPPCL)

On January 11, 2019, MPPCL drew a total of US$35 million (P1,824 million) from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (Unit 3) coal-fired power plant within the existing facilities of MPPCL. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

Citra Central Expressway Corp. (CCEC)

On March 27, 2019, CCEC drew P1,000 million from the P31,000 million Omnibus Loan and Security Agreement with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

San Miguel Yamamura Asia Corporation (SMYAC)

On January 22, 2019, SMYAC drew the final tranche worth P700 million from its P4,000 million long-term loan facility to finance the capital expenditure on the construction of a third furnace to support the glass capacity expansion project. The loan is subject to a floating interest rate with maturities up to July 2023.

PAYMENT OF MATURING OBLIGATIONS

In the first quarter of 2019, the Group paid a total amount of P5,585 million of the maturing long-term debt.

The Infrastructure Group, Petron Corporation (Petron) and Energy Group paid a total of P3,149 million, P1,411 million and P571 million, respectively, of their maturing long-term debt.

While, San Miguel Yamamura Packaging Corporation, Can Asia, Inc. and SMYAC paid their maturing long-term debt with a total amount of P448 million.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group’s consolidated sales revenue for the first quarter of 2019 amounted to P250,920 million, 7% higher than 2018, mainly driven by the higher volume and favorable selling prices from most of the major businesses.

Higher cost of sales by 9% to P200,054 million million resulted primarily from the volume growth and increase in costs and prices of raw materials of the Energy Group, Food Group and domestic operations of SMB.

Selling and administrative expenses increased mainly due to higher depreciation and amortization, advertising and promotions, taxes and licenses, contracted services and distribution costs.

The Group’s consolidated operating income amounted to P30,692 million, 4% lower than last year, mainly due to Petron, which continue to be affected by the prevailing movements in world crude oil prices eroding refining margins, and the Food business, which has also been affected by a sharp decline in poultry prices and rising raw material costs.

The higher interest expense and other financing charges was mainly due to the higher level of loans payable and long-term debt in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net earnings primarily represents the share of SMC Global on the net income of Angat Hydropower Corporation (Angat Hydro) in 2019 compared to share in net loss in 2018.

The gain on sale of property and equipment in 2019 and 2018 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for the construction of LRT / MRT project.

The decrease in other charges was primarily due to the appreciation of the Philippine Peso in March 2019 compared to the depreciation of the Philippine Peso in March 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018. This was partly offset by hedging loss on currency and commodity in 2019, compared to hedging gain on currency and hedging loss on commodity in 2018.

The higher income tax expense was primarily due to SMC's recognition of deferred income tax expense for the unrealized forex gain in 2019 compared to deferred income tax benefit for the unrealized forex loss in 2018, mainly from the revaluation of long-term debt.

Consolidated net income amounted to P12,480 million in 2019.

Share of non-controlling interests (NCI) decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in the share of NCI on higher net income of SMC Global and SMB.

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 revenues amounting to P75,655 million for the first quarter of 2019, 14% higher than P66,087 million reported in the same period in 2018. Volumes and revenues remained strong across Beer, Spirits and the Food businesses. Consolidated operating income of P10,810 million, however, ended slightly lower than last year on account of the sharp decline in chicken selling prices and continuous rising cost of raw materials that affected the food business.

Net income grew 1% to P7,363 million from last year.

a. Beer and NAB Segment (SMB)

SMB reinforced its continuous strong volumes and revenue growth during the first quarter of this year. Volumes reached 76.4 million cases, 18% higher than last year, while revenues also grew 17% at P34,832 million.

Domestic Operations
Domestic volumes grew 19% compared to last year mainly driven by strong consumption across the country with Red Horse and San Miguel Pale Pilsen sustaining their position as SMB's top selling brands. This has been backed by consistent and engaging consumption-generating initiatives and defense programs boosting further the equity strength and market leadership of the SMB brands.

International Operations
SMB’s international operations, on the other hand, posted volume and revenue growth during the first three months. Exports, Hong Kong, Indonesia and Vietnam led volume growths, which were partly offset by lower volumes in North China and Thailand.

Consequently, SMB’s consolidated operating income rose to P9,556 million, 15% higher than last year, mainly driven by strong volumes offsetting the effect of higher operating costs and increase in excise tax effective January 1, 2019.

Net income grew to P6,747 million, up 19% from last year.

b. Spirits Segment (GSMI)

GSMI sustained its strong growth momentum in the first quarter of 2019 with sales volume reaching 10.4 million cases, 24% higher than last year’s level. This is the result of continuous sales efforts, complimented by GSMI’s on-going nationwide “Pilipino Ako, Ginebra Ako” thematic campaign. Vino Kulafu also helped boost growth through its “Lakas sa Magandang Bukas” advertising campaigns and on-ground activations in the Visayas and Mindanao regions.

This resulted in revenues of P8,265 million, 28% higher than the same period last year. Operating income and net income posted significant growth of 122% and 141% at P986 million and P616 million from the previous year, respectively.

c. Food Segment

The Food Group’s consolidated revenues rose to P32,558 million, 9% higher than last year. All businesses registered revenue growth brought about by higher sales volume and better selling prices.

Revenues from the Prepared and Packaged Food segment, expanded by 16% mainly from its core products - Tender Juicy, Pure Foods Corned Beef, Nuggets and

Luncheon Meat and Magnolia breadfill and spreads. The Animal Nutrition and Health segment revenues grew 8% due to strong performance of high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

The Protein segment revenue also grew by 6%, backed by higher chicken sales from its stable-priced channels, despite the significant industry-wide drop in chicken selling prices.

Coupled with rising cost of raw materials and increased selling and administrative expenses, Food Group's operating income ended at P284 million, lower than same period last year.

Net income, likewise, ended lower at P11 million.

2. PACKAGING

The packaging business' sales revenues during the first three months reached P8,840 million, 3% higher vs. 2018. Growth continues to be propelled by the solid performance from the glass, metal, plastics, flexibles and paper operations.

Operating income amounted to P828 million, 4% higher than 2018**.**

3. ENERGY

SMC Global posted consolidated off-take volume of 6,826 gigawatt hours (gwh) during the first quarter, 42% higher than last year, brought about by higher operating hours from the Ilijan and Sual power plants, the full contribution from Unit 2 and Unit 3 of the Malita and Limay power plants and the full YTD recognition of the operations of Masinloc power plant.

With higher off-take volumes and average realization price, consolidated revenues rose by 41% to P34,676 million from P24,661 million in the previous year. This in turn brought operating income to reach P9,841 million, 23% higher.

Net income amounted to P3,579 million, double than last year's level.

4. FUEL AND OIL

Petron posted consolidated revenues of P124,558 million during the first quarter, 4% lower than the P129,112 million in the previous year. This was mainly due to the 5% decline in volume from the Philippine operations following the second year increase in excise tax at the beginning of this year.

Consolidated volumes, however, ended 1% lower at 26.3 million barrels compared to the same period last year brought about by higher volumes contribution from Petron Malaysia and increases in LPG and polypropylene volumes.

Consolidated operating income and net income settled at P4,865 million and P1,303 million, 45% and 77% decline from 2018, respectively.

Efforts to manage prevailing risk and strengthen further its presence in key areas were implemented to mitigate its impact. It, likewise, remains focused on completing major expansion projects that will further re-inforce its market leadership.

Petron will soon commission its new Lube Oil Blending Plant at the Manila Harbor which will have twice the capacity of its current Pandacan Plant, that will clearly improve its Lube business. It is also nearing completion of its polypropylene plant expansion which will provide overall better margins.

Petron also continued its service stations expansion as it opened 40 new stations in the first quarter in the Philippine market and the Malaysian operations has now over 650 stations, bringing Petron's combined total count to over 3,000.

5. INFRASTRUCTURE

SMC Infrastructure reported revenues of P6,359 million, an 8% increase from the previous year, as vehicular volume from all operating tollroads continue to grow. Operating income reached P3,130 million, 1% higher than last year.

2018 vs. 2017

The Group's consolidated sales revenue for the first quarter of 2018 amounted to P234,341 million, 20% higher than 2017 with all major businesses posting double-digit growth.

Cost of sales increased by 21% to P184,124 million mainly due to the increase in crude prices and excise tax on fuel, lubes & greases of Petron; higher sales volume of SMB, Poultry and the Food group; higher excise tax of the domestic operations of SMB, cost of coal consumed by Limay Power Plant, and prices of major raw materials of the Food business.

Selling and administrative expenses increased mainly due to higher personnel, advertising and promotion expenses, and distribution costs of SMB, higher Liquefied Petroleum Gas (LPG) cylinder purchases and rental expenses of Petron, and logistics and manpower costs of SMFB.

The Group's consolidated operating income reached P32,028 million, 19% higher than 2017. This was the result of sustained sales growth from all businesses and continuous efficiency improvements throughout the Group.

The increase in interest expense and financing charges was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017 from the issuance by SMC of the P50,000 million (Series A, B, C, D, E, F and G) bonds in 2017 and 2018, and availment of US$400 million and US$400 million long-term debt in 2017 and March 2018, respectively, issuance by SMC Global of P20,000 million Bonds in December 2017 and additional loan availed in 2018 by SMC Global to finance the acquisition of the Masinloc Group.

The higher interest income was primarily due to higher average balance of cash and money market placements of SMC Global, of the domestic and international operations of SMB, San Miguel Equity Investments Inc. and SMC.

The decrease in equity in net earnings primarily represents the share of SMC Global on the net loss of Angat Hydro in 2018 vs net income in 2017, share of San Miguel Properties Inc. (SMPI) on the lower income of Bank of Commerce.

The gain on sale of investments and property and equipment in 2018 pertains to the sale of service stations by Petron Malaysia to the government. Certain service stations of Petron Malaysia were closed since the lot they are occupying were used for government projects.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt of and finance lease liabilities as a result of the higher depreciation of Philippine Peso against the US Dollar in March 2018.

Consolidated net income amounted to P13,550 million in 2018 ended flat.

Consolidated recurring net income, excluding the effect of foreign exchange translation, amounted to P19,191 million, 28% higher than 2017.

Share of NCI on the group's net income increased in 2018 mainly due to the higher net income of SMB and SMC.

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

1. FOOD AND BEVERAGE

The combined sales revenues of SMFB in 2018 grew 16% to P66,087 million from P57,161 million in 2017. Operating income reached P10,920 million in 2018, an increase of 21% from the same period in 2017.

a. SMB

SMB continued to perform strongly in the first three months in 2018 with consolidated volumes reaching 65 million cases, 11% higher than 2017. The strong volume growth was mainly driven by increased consumption of SMB brands nationwide, boosted by new marketing campaigns further strengthening its brand equity coupled with the implementation of trade and consumer promos.

Growth in volumes combined with the impact of the price increase implemented last October 2017, brought consolidated revenues up 18% to P29,814 million.

Along with the contribution from its International Operations, operating income grew 25% to P8,313 million.

b. GSMI

GSMI likewise turned in a solid first quarter of 2018 performance posting a 20% increase in sales volumes to 8.4 million cases. The core brands Ginebra San Miguel and Vino Kulafu continued to drive growth benefitting from all out ongoing campaigns.

Revenues rose 24% to P6,449 million while operating income reached P444 million, 57% higher than 2017.

c. Food Segment

The Food business headed to a good start during the first three months of 2018, with consolidated revenues reaching P29,824 million, 12% higher than 2017. This is on the back of the sustained strong growth momentum from the Protein and Prepared and Packaged Food businesses.

Income from operations grew 4% to P2,161 million, led by the strong revenue performance of the Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses. Growth was however softened by higher prices of major raw materials and expansion-related operating expenses.

Revenues from the Animal Nutrition and Health and Protein businesses grew 12% to P21,027 million, driven by higher sales volume and favorable selling prices from the chicken and fresh meats products. However, rising costs of major raw materials namely corn, cassava and feed wheat partly affected operating income growth.

The Milling business continues to be weighed down by aggressive competition among local and foreign players putting pressure on flour selling prices. Capacity constraints likewise limited the business' volume growth expansion. Revenues declined by 3% to P2,370 million relative to the same quarter in 2017. Nevertheless, the Milling business remains profitable despite the margin squeeze.

The Prepared and Packaged Food business continued to perform well as combined revenues climbed 17% higher to P6,869 million, driven primarily by the strong performance of processed meats. Growth in volumes was led by the double-digit sales of the mid-priced segment. Tender Juicy hotdog continued to be the market leader in the overall hotdog category. Operating income was likewise affected by rising imported raw material costs for dairy.

2. PACKAGING

The San Miguel Yamamura Packaging Group likewise started 2018 strong delivering total sales revenues amounting to P8,557 million, 25% higher from 2017. This was mainly driven by strong sales from the glass, plastics, flexibles businesses and continuous growth in its Australian operations.

Operating income amounted to P794 million, 26% higher than 2017.

3. ENERGY

SMC Global posted consolidated off-take volume of 4,790 gwh during the first quarter of 2018, 21% higher than 2017 driving revenues to grow 27% to P24,661 million. This was the result of higher off-take volumes from Ilijan and San Miguel Electric Corp., shorter outages, increase in Retail Electricity Supplier customer requirements, higher average selling prices for Sual and higher contribution from the new power plants in Limay, Bataan and Malita, Davao.

Operating income reached P7,991 million, 32% higher than 2017 at P6,040 million.

4. FUEL AND OIL

Petron opened the year 2018 strong, posting consolidated revenues of P129,112 million, up 21% from P106,412 million in 2017. Despite higher international oil prices and softer demand, combined volumes of 26.6 million barrels ended at par vs. 2017 which reached full time high. Combined domestic fuel volumes in the Philippines and Malaysia grew 5%.

Petron’s Refinery Master Plan 2 has reached its highest ever utilization rate at 99% or near full capacity during the period.

Operating income hit P8,796 million.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenue of P5,888 million, 11% higher than 2017 on the back of continuous growth in traffic volume at all operating tollroads. Operating income grew 22% to P3,114 million.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of March 31, 2019 amounted to about P1,835,739 million, P44,547 million higher than December 31, 2018. The increase was primarily due to the recognition of right-of-use (ROU) assets with the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*, and the consolidation of Mariveles Power Generation Corp (MPGC) by SMC Global.

The decrease in prepaid expenses and other current assets by P10,181 million was primarily due to decrease in CCEC's restricted cash balance and decrease in Petron's input tax and goods and services tax as a result of collection of input tax claim from the government and also utilization of input tax for the period.

Property, plant and equipment decreased by P187,690 million primarily due to the reclassification of the Group's power plants under IPPA to ROU assets account as a result of the adoption of PFRS 16.

The balance of ROU assets of P205,027 million represents the amount of the Group's power plants under IPPA reclassified from property, plant and equipment and other various operating lease agreements as a result of the adoption of PFRS 16.

The increase in investment property by P14,177 million is mainly due to the set-up of ROU assets of Petron for its rented properties being sub-leased to external parties.

The increase in other noncurrent assets by P6,371 million was mainly due to the consolidation of the advances of MPGC to suppliers and contractors for the construction of its Mariveles Power Plant. On January 25, 2019, SMC Global increased its percentage of ownership in MPGC from 49% to 73.58 % through capital infusion.

The increase in loans payable by P11,202 million mainly due to the net availment of short-term Peso loans by SMC for general corporate purposes.

The increase in accounts payable and accrued expenses by P10,022 million was mainly due to the higher liabilities for crude and petroleum products on account of higher prices.

The increase in lease liabilities (current and noncurrent) by P14,113 million pertains to the recognition of lease liabilities for ROU assets due to the adoption of PFRS 16, set-up of IPPA's interest expense, net of Energy Group's payment for the period.

The increase in income and other taxes payable by P3,998 million was mainly due to the first quarter income taxes payable of SMB and Energy Group, and higher VAT payable of Energy Group.

The increase in dividends payable by P217 million primarily represents the dividends declared by Petron on March 12, 2019 to its non-controlling shareholders payable on April 11, 2019.

2018 vs. 2017

Consolidated total assets as of March 31, 2018 amounted to P1,696,397 million, P199,598 million higher than December 31, 2017. The increase was primarily due to the increase in cash and cash equivalents, the consolidation of Masinloc Power assets and the recognition of goodwill on the consolidation of Masinloc Group.

The increase in cash and cash equivalents by P30,338 million was mainly due to the proceeds from issuance of Series E, F and G Bonds of SMC which was used to repay the US$400 million bridge loan in April 2018, and net cash generated from operations of SMB and Petron.

The increase in trade and other receivables of P6,850 million is mainly attributable to the higher bilateral sales of SMC Global and consolidation of the trade and other receivables of MPPCL, a subsidiary of Masin-AES Pte. Ltd. (MAPL).

Inventories increased by P11,127 million due to the higher prices and higher volume of crude oil and finished products of Petron, consolidation of the materials and supplies of MPPCL, and purchase of containers and materials by SMB in anticipation of higher volumes for the summer season.

Current portion of biological assets increased by P208 million mainly due to expansion of Poultry farms' capacities to support increasing supply requirement.

The increase in property, plant and equipment by P65,741 million was primarily due to the consolidation of the power plant and properties of MPPCL and Alpha Water and Realty Services Corp. (AWRSC), a subsidiary of MAPL, and the costs of the expansion projects of SMFB.

Investment property also increased by P617 million mainly due to the acquisition by SMPI of properties located in Mariveles, Bataan and Makati City.

The increase in goodwill by P70,009 million mainly represents the goodwill recognized as a result of the consolidation of Masinloc Power.

Deferred tax assets increased by P1,483 million mainly due to the effect of recognition by SMC of deferred tax on the higher unrealized foreign exchange loss on the revaluation of foreign currency denominated-long-term debt and loans payable in 2018, net of the effect of deferred tax on unrealized gain on derivatives and forex restatement of SMEC and Strategic Power Devt. Corp. (SPDC) and difference in the PSALM payments versus recognized finance lease liabilities-related expenses per books and the consolidation of the deferred taxes of AWRSC and MPPCL.

Other noncurrent assets increased by P9,077 million mainly due to the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited, project costs incurred for Section 3A-2 (Binalonan to Pozzorubio) of Private Infra Dev Corporation Project and capitalized expenditures on the construction of Mass Rail Transit Line 7 Project; consolidation of the restricted cash balance of MPPCL and purchase of new bottles and shells by SMB.

Loans payable increased by P28,790 million mainly due to availment by SMC of US$400 million bridge financing loans to partly finance the acquisition of Masinloc Group.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of SPPC, SMEC and SPDC.

Income and other taxes payable increased by P4,894 million was mainly due to the increase in taxable income of SMB and San Miguel Holdings Corp., higher vatable sales of SMC Global, and higher excise tax liability coupled with higher income tax of Petron Malaysia.

The increase in dividends payable by P1,483 million was mainly due to the dividends declared by SMB to its common stockholders on March 9, 2018 which was paid on April 18, 2018.

The higher amount of long-term debt by P143,007 million resulted from the availments made by SMC Global of US$1,200 million and SMC of US$400 million to partly finance the acquisition of Masinloc; issuance by SMC of Series E, F and G fixed rate Bonds which were used for the payment in April 2018 of the US$400 million short-term loans; consolidation of the long-term debt of MPPCL; and forex adjustment on the US dollar denominated loans.

NCI increased by P13,524 million mainly due to issuance of SPCS net of partial redemption of USCS by Petron, share of non-controlling stockholders in the higher net income of Petron, SMC and SMB, and translation adjustments, net of dividends declared to the non-controlling stockholders of SMC, SMB and Petron.

Equity

The increase (decrease) in equity is due to:

(In millions)	March 31	
	2019	2018
Income during the period	**P12,480**	P13,550
Addition to non-controlling interests and others	**955**	3,390
Other comprehensive income	**667**	3,981
Adjustments due to adoption of PFRS	**(980)**	-
Cash dividends and distributions	**(6,978)**	(7,508)
	P6,144	P13,413

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	March 31	
	2019	2018
Net cash flows provided by operating activities	**P34,021**	P15,396
Net cash flows used in investing activities	**(22,547)**	(107,243)
Net cash flows provided by (used in) financing activities	**(2,682)**	121,502

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 primarily includes the following:

(In millions)	March 31	
	2019	2018
Additions to property, plant and equipment	**(P12,815)**	(P7,705)
Increase in other noncurrent assets and others	**(12,100)**	(3,388)
Additions to investments and advances	**(330)**	(786)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(9)**	(97,334)
Interest received	**2,434**	1,299
Proceeds from sale of investments and property and equipment	**267**	39

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

(In millions)	March 31	
	2019	2018
Payment of cash dividends and distributions	**(P6,762)**	(P6,022)
Payment of lease liabilities	**(4,949)**	(6,330)
Proceeds from long-term debt - net	**(2,032)**	104,895
Proceeds from short-term loans - net	**11,056**	25,757
Net proceeds from senior perpetual securities of a subsidiary	**-**	24,878
Redemption of undated subordinated capital securities of a subsidiary	**-**	(21,309)

The effect of exchange rate changes on cash and cash equivalents amounted to P1,125 million and P683 million for the periods ended March 31, 2019 and 2018, respectively.

V. KEY PERFORMANCE INDICATORS

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

	March 2019	December 2018
Liquidity:		
Current Ratio	**1.23**	1.29
Solvency:		
Debt to Equity Ratio	**2.38**	2.33
Asset to Equity Ratio	**3.38**	3.33
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**4.74%**	4.76%
Interest Rate Coverage Ratio	**2.51**	2.63

	Periods Ended March 31	
	2019	2018
Operating Efficiency:		
Volume Growth	**8%**	6%
Revenue Growth	**7%**	20%
Operating Margin	**12%**	14%

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

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

* *Annualized for quarterly reporting*