SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended
   Sep 30, 2017
2. SEC Identification Number
   CS200803939
3. BIR Tax Identification No.
   006-990-128
4. Exact name of issuer as specified in its charter
   Top Frontier Investment Holdings, Inc.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City
   Postal Code
   1200
8. Issuer's telephone number, including area code
   (02) 632-3481
9. Former name or former address, and former fiscal year, if changed since last report
   N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	332,886,167
Total Liabilities in Millions (as of 9/30/17)	980,582

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

   ☑ Yes ☐ No

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

   Philippine Stock Exchange; Common Stock
12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc.
TFHI

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

For the period ended	Sep 30, 2017
Currency (indicate units, if applicable)	Php (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2017	Dec 31, 2016
Current Assets	486,585	476,156
Total Assets	1,468,080	1,426,986
Current Liabilities	397,414	402,371
Total Liabilities	980,582	963,009
Retained Earnings/(Deficit)	68,532	60,056
Stockholders' Equity	487,498	463,977
Stockholders' Equity - Parent	131,402	122,405
Book Value per Share	313.32	292.21

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	203,583	169,139	596,981	498,301
Gross Expense	174,909	145,418	516,144	427,363
Non-Operating Income	1,629	1,077	4,239	15,333
Non-Operating Expense	9,508	14,791	27,271	30,756
Income/(Loss) Before Tax	20,795	10,007	57,805	55,515
Income Tax Expense	6,810	3,754	18,059	14,081
Net Income/(Loss) After Tax	13,985	6,253	39,746	41,434
Net Income Attributable to Parent Equity Holder	2,846	-1,579	8,476	11,942
Earnings/(Loss) Per Share (Basic)	7.39	-6	21.99	10.55
Earnings/(Loss) Per Share (Diluted)	7.39	-6	21.99	10.55

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	20.39	41.53
Earnings/(Loss) Per Share (Diluted)	20.39	41.53

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 3rd Quarter of 2017, as filed with the Securities and Exchange Commission on November 16, 2017.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

111162017003784

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632)726-0931 to 39 Fax:(632)725-5293 Email: mis@sec.gov.ph

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Company Information

SEC Registration No.	CS200803939
Company Name	TOP FRONTIER INVESTMENT HOLDINGS INC.
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

Document ID	111162017003784
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	September 30, 2017
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

C	S	2	0	0	8	0	3	9	3	9

S. E. C. Registration Number

TOP FRONTIER
INVESTMENT HOLDINGS,
INC.

(Company's Full Name)

5th Floor ENZO Bldg.
399 Sen. Gil Puyat
Ave., Makati City

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

Virgilio S. Jacinto	(02) 632-3144
Contact Person	Company Telephone Number

1 2	3 1	SEC Form 17-Q (3rd Quarter 2017)	0 7	0 9
Month	Day	FORM TYPE	Month	

Day
Fiscal Year
Meeting

Annual

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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STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2017**

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 September 30, 2017)
Common Shares	**332,886,167***

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

Total Liabilities	**P980,582 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended September 30, 2016) and Selected Notes to the Consolidated Financial Statements is hereto attached as Annex "A".

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

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

PART II -- OTHER INFORMATION

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

SIGNATURES

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

Issuer	**TOP FRONTIER INVESTMENT HOLDINGS, INC.**
Signature and Title	**AURORA T. CALDERON** Director/Treasurer/Authorized Signatory
Date	November 16, 2017
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	November 16, 2017

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(In Millions)

ANNEX "A"

ASSETS

	2017 Unaudited	2016 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ **213,020**	₱ 203,246
Trade and other receivables - net (Notes 4, 8 and 9)	**103,192**	110,966
Inventories	**91,589**	83,241
Current portion of biological assets - net	**3,281**	3,122
Prepaid expenses and other current assets (Notes 8 and 9)	**75,438**	75,397
	486,520	475,972
Assets held for sale	**65**	184
Total Current Assets	**486,585**	476,156
Noncurrent Assets		
Investments and advances - net	**34,645**	32,740
Available-for-sale financial assets (Notes 8 and 9)	**5,859**	5,986
Property, plant and equipment - net (Note 5)	**578,996**	565,882
Investment property - net	**9,002**	9,271
Biological assets - net of current portion	**2,602**	2,263
Goodwill	**49,776**	49,225
Other intangible assets - net	**236,046**	232,196
Deferred tax assets	**20,621**	21,011
Other noncurrent assets - net (Notes 4, 8 and 9)	**43,948**	32,256
Total Noncurrent Assets	**981,495**	950,830
	₱ **1,468,080**	₱ 1,426,986

LIABILITIES AND EQUITY

	2017 Unaudited	2016 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	₱ **175,105**	₱ 197,093
Accounts payable and accrued expenses (Notes 4, 8 and 9)	**145,751**	133,948
Finance lease liabilities - current portion (Notes 8 and 9)	**19,967**	19,084
Income and other taxes payable	**16,314**	16,990
Dividends payable	**3,388**	3,442
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	**36,889**	31,814
Total Current Liabilities	**397,414**	402,371
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	**327,923**	297,617
Deferred tax liabilities	**61,385**	59,027
Finance lease liabilities - net of current portion (Notes 8 and 9)	**154,873**	168,021
Other noncurrent liabilities (Notes 4, 8 and 9)	**38,987**	35,973
Total Noncurrent Liabilities	**583,168**	560,638
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	**(6,759)**	(7,280)
Retained earnings:		
Appropriated	**18,183**	19,148
Unappropriated	**50,349**	40,908
Treasury stock	**(76,780)**	(76,780)
	131,402	122,405
Non-controlling Interests	**356,096**	341,572
Total Equity	**487,498**	463,977
	₱ **1,468,080**	₱ 1,426,986

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Millions, Except Per Share Data)

			For the Quarter Ended	
	2017 Unaudited	2016 Unaudited	**2017 Unaudited**	2016 Unaudited
SALES (Note 2)	**₱ 596,981**	₱ 498,301	**₱ 203,583**	₱ 169,139
COST OF SALES	**463,423**	368,546	**157,599**	126,415
GROSS PROFIT	**133,558**	129,755	**45,984**	42,724
SELLING AND ADMINISTRATIVE EXPENSES	**(52,721)**	(58,817)	**(17,310)**	(19,003)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(24,483)**	(23,937)	**(7,914)**	(7,537)
INTEREST INCOME	**3,274**	2,771	**1,224**	880
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**267**	210	**103**	128
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**698**	104	**302**	69
OTHER CHARGES - Net (Note 3)	**(2,788)**	(6,819)	**(1,594)**	(7,254)
INCOME BEFORE INCOME TAX	**57,805**	43,267	**20,795**	10,007
INCOME TAX EXPENSE	**18,059**	14,081	**6,810**	3,754
INCOME FROM CONTINUING OPERATIONS	**39,746**	29,186	**13,985**	6,253
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	**-**	12,248	**-**	-
NET INCOME	**₱ 39,746**	₱ 41,434	**₱ 13,985**	₱ 6,253
Attributable to:				
Equity holders of the Parent Company	**₱ 8,476**	₱ 11,942	**₱ 2,846**	₱ (1,579)
Non-controlling interests	**31,270**	29,492	**11,139**	7,832
	₱ 39,746	₱ 41,434	**₱ 13,985**	₱ 6,253
Basic and Diluted Earnings (Losses) Per Common Share from Continuing Operations, Attributable to Equity Holders of the Parent Company (Note 6):	**₱ 21.99**	₱ 10.55	**₱ 7.39**	₱ (6.00)

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Millions)

			For the Quarter Ended	
	2017 Unaudited	2016 Unaudited	**2017 Unaudited**	2016 Unaudited
NET INCOME	**₱ 39,746**	₱ 41,434	**₱ 13,985**	₱ 6,253
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	**(20)**	(8)	**(30)**	(19)
INCOME TAX BENEFIT	**-**	-	**-**	1
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net	**126**	41	**50**	27
	106	33	**20**	9
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**2,543**	2,888	**673**	2,874
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE	**12**	19	**(17)**	(4)
INCOME TAX BENEFIT (EXPENSE)	**(1)**	(2)	**2**	3
	2,554	2,905	**658**	2,873
OTHER COMPREHENSIVE INCOME - Net of tax	**2,660**	2,938	**678**	2,882
TOTAL COMPREHENSIVE INCOME - Net of tax	**₱ 42,406**	₱ 44,372	**₱ 14,663**	₱ 9,135
Attributable to:				
Equity holders of the Parent Company	**₱ 8,997**	₱ 12,567	**₱ 2,922**	₱ (990)
Non-controlling interests	**33,409**	31,805	**11,741**	10,125
	₱ 42,406	₱ 44,372	**₱ 14,663**	₱ 9,135

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(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				
	Common	Preferred			Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred	Total		
As of January 1, 2017 (Audited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,086)**	**₱ 1,225**	**₱ (2,820)**	**₱ (4,599)**	**₱ 19,148**	**₱ 40,908**	**₱ (28,457)**	**₱ (48,323)**	**₱ 122,405**	**₱ 341,572**	**₱ 463,977**
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	**441**	-	-	-	-	-	**441**	**2,102**	**2,543**
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	**45**	**29**	-	-	-	-	-	**74**	**52**	**126**
Net gain on available-for-sale financial assets	-	-	-	-	-	**7**	-	-	-	-	-	-	**7**	**4**	**11**
Equity reserve for retirement plan	-	-	-	-	**(1)**	-	-	-	-	-	-	-	**(1)**	**(19)**	**(20)**
Other comprehensive income (loss)	-	-	-	-	**(1)**	**52**	**470**	-	-	-	-	-	**521**	**2,139**	**2,660**
Net income	-	-	-	-	-	-	-	-	-	**8,476**	-	-	**8,476**	**31,270**	**39,746**
Total comprehensive income	-	-	-	-	**(1)**	**52**	**470**	-	-	**8,476**	-	-	**8,997**	**33,409**	**42,406**
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	-	-	-	-	-	-	**1,133**	**1,133**
Appropriations - net	-	-	-	-	-	-	-	-	**(965)**	**965**	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	**(6,975)**	**(6,975)**
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	**(6,769)**	**(6,769)**
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	**(6,274)**	**(6,274)**
As of September 30, 2017 (Unaudited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,087)**	**₱ 1,277**	**₱ (2,350)**	**₱ (4,599)**	**₱ 18,183**	**₱ 50,349**	**₱ (28,457)**	**₱ (48,323)**	**₱ 131,402**	**₱ 356,096**	**₱ 487,498**
As of January 1, 2016 (Audited)	₱ 490	₱ 260	₱ 120,501	₱ -	₱ (2,271)	₱ 1,256	₱ (1,517)	₱ (1,184)	₱ 13,874	₱ 36,759	₱ (28,457)	₱ (48,323)	₱ 91,388	₱ 297,200	₱ 388,588
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	586	-	-	-	-	-	586	2,302	2,888
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	21	-	-	-	-	-	21	20	41
Net gain on available-for-sale financial assets	-	-	-	-	-	10	-	-	-	-	-	-	10	7	17
Equity reserve for retirement plan	-	-	-	-	8	-	-	-	-	-	-	-	8	(16)	(8)
Other comprehensive income	-	-	-	-	8	10	607	-	-	-	-	-	625	2,313	2,938
Net income	-	-	-	-	-	-	-	-	-	11,942	-	-	11,942	29,492	41,434
Total comprehensive income	-	-	-	-	8	10	607	-	-	11,942	-	-	12,567	31,805	44,372
Issuance of convertible perpetual securities	-	-	-	25,162	-	-	-	-	-	-	-	-	25,162	-	25,162
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	(3,513)	-	-	-	-	(3,513)	26,433	22,920
Appropriations - net	-	-	-	-	-	-	-	-	1,187	(1,187)	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,857)	(6,857)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,292)	(6,292)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,935)	(5,935)
As of September 30, 2016 (Unaudited)	₱ 490	₱ 260	₱ 120,501	₱ 25,162	₱ (2,263)	₱ 1,266	₱ (910)	₱ (4,697)	₱ 15,061	₱ 47,514	₱ (28,457)	₱ (48,323)	₱ 125,604	₱ 336,354	₱ 461,958

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Millions)

	2017 Unaudited	2016 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱ 57,805	₱ 43,267
Income before income tax from discontinued operations	-	13,195
Income before income tax	57,805	56,462
Adjustments for:		
Depreciation, amortization and others - net	30,817	34,787
Interest expense and other financing charges	24,483	23,943
Interest income	(3,274)	(2,785)
Equity in net earnings of associates and joint ventures	(267)	(210)
Gain from disposal of discontinued operations	-	(14,002)
Gain on sale of investments and property and equipment	(698)	(104)
Operating income before working capital changes	108,866	98,091
Changes in noncash current assets, certain current liabilities and others	301	(19,170)
Cash generated from operations	109,167	78,921
Interest and other financing charges paid	(18,593)	(19,220)
Income taxes paid	(14,602)	(14,839)
Net cash flows provided by operating activities	75,972	44,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(1,265)	(1,905)
Additions to investments and advances and available-for-sale financial assets	(1,565)	(7,494)
Additions to property, plant and equipment	(27,944)	(28,314)
Increase in other noncurrent assets and others	(20,887)	(10,866)
Proceeds from sale of investments and property and equipment	1,262	479
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	13,020	24,154
Interest received	1,641	2,654
Dividend received from an associate and available-for-sale financial assets	11	18
Net cash flows used in investing activities	(35,727)	(21,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	645,753	457,203
Long-term borrowings	130,259	49,788
Payments of:		
Short-term borrowings	(668,493)	(473,271)
Long-term borrowings	(99,457)	(78,417)
Payments of finance lease liabilities	(18,630)	(17,811)
Cash dividends and distributions paid to non-controlling shareholders	(20,072)	(17,509)
Proceeds from reissuance of treasury shares of a subsidiary	-	29,722
Proceeds from issuance of convertible perpetual securities - net	-	25,162
Increase (decrease) in non-controlling interests	383	(5,445)
Net cash flows used in financing activities	(30,257)	(30,578)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(214)	2,216
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,774	(4,774)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	203,246	181,134
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 213,020	₱ 176,360

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2017
(In Millions)

	Total	Current	Past Due 1 - 30 Days	Past Due 31 - 60 Days	Past Due Over 60 Days
Trade	P 58,155	P 41,940	P 3,906	P 1,389	P 10,920
Non-trade	43,302	22,187	973	451	19,691
Others	15,834	14,716	95	125	898
Total	117,291	P 78,843	P 4,974	P 1,965	P 31,509
Less allowance for impairment losses	14,099				
Net	P **103,192**				

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 September 30, 2017 and comparative financial statements for the same period in 2016 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.

Adoption of New and Amended Standards
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

The Group has adopted the following PFRS effective January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments improve disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.

- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:

    - Clarification of the Scope of the Standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of these foregoing amended standards 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, 2017 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:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:

    - Measuring an associate or joint venture at fair value *(Amendments to PAS 28, Investments in Associates).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

      The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. Potential impact is being assessed.

- *Applying* PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39*, Financial Instruments: Recognition and Measurement,* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021.

  The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method.

  The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

  The amendments also clarify that the entity is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date; and (b) the difference between the carrying amount of the liability derecognized and the amount recognized in equity as at the modification date is recognized in profit or loss immediately.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. Amendments can be applied retrospectively or prospectively. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Transfers of Investment Property *(Amendments to PAS 40, Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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 introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. When there is uncertainty over income tax treatments, this interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

  On initial application, an entity shall apply this interpretation either: (a) retrospectively applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this interpretation.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this interpretation for an earlier period, it shall disclose that fact.

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

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the International Accounting Standards Board (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

Operating Segments

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

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

The beverage segment produces and markets alcoholic and non-alcoholic beverages.

The food segment includes, among others, feeds production and poultry and livestock farming, processing and selling of poultry and meat products, processing and marketing of value-added refrigerated processed meats and canned meat products, manufacturing and marketing of flour, flour mixes and bakery ingredients, butter, margarine, cheese, milk, ice cream, jelly snacks and desserts, specialty oils, salad aids, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling.

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

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

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, port facilities and water ultilities and systems.

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:

	Beverage		Food		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Eliminations		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Sales																		
External sales	**P95,957**	P82,398	**P84,443**	P80,525	**P16,858**	P15,127	**P60,418**	P53,157	**P311,294**	P242,815	**P16,520**	P14,672	**P11,491**	P9,607	**P –**	P –	**P596,981**	P498,301
Inter-segment sales	**29**	102	**9**	57	**5,502**	4,622	**1,699**	7,543	**2,211**	4,956	**–**	–	**14,742**	7,878	**(24,192)**	(25,158)	**–**	–
Total sales	**P95,986**	P82,500	**P84,452**	P80,582	**P22,360**	P19,749	**P62,117**	P60,700	**P313,505**	P247,771	**P16,520**	P14,672	**P26,233**	P17,485	**(P24,192)**	(P25,158)	**P596,981**	P498,301
Results																		
Segment results	**P21,883**	P18,879	**P 6,525**	P5,388	**P1,898**	P1,571	**P19,110**	P22,280	**P22,686**	P16,817	**P8,086**	P7,441	**P1,277**	(P1,158)	**(P628)**	(P280)	**P80,837**	P70,938

3. **Other Income (Charges)**

Other income (charges) consists of:

	September 30	
	2017	2016
Construction revenue	**P7,509**	P6,115
Loss on derivatives - net	**(726)**	(79)
Loss on foreign exchange - net	**(3,849)**	(7,563)
Construction costs	**(7,509)**	(6,115)
Others	**1,787**	823
	(P2,788)	(P6,819)

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.

“Others” include Power Sector Assets and Liabilities Management Corporation monthly fees reduction resulting from the outages of the Sual Power Plant in 2017 and 2016.

4. **Related Party Disclosures**

The Parent Company, certain subsidiaries and their shareholders and associates and joint ventures in the normal course of business, purchase products and services from one another. 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 September 30, 2017 and December 31, 2016:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	**September 30, 2017**	**P -**	**P -**	**P -**	**P11,194**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2016	-	278	-	10,953		
	September 30, 2017	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	-	-	-	221		
Retirement Plans	**September 30, 2017**	**299**	**-**	**12,033**	-	On demand; interest bearing	Unsecured; no impairment
	December 31, 2016	450	-	11,813	-		
Associates	**September 30, 2017**	**1,784**	**144**	**1,516**	**34**	On demand; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2016	2,085	199	524	56		
	September 30, 2017	**-**	**-**	**-**	**23,137**	Less than 1 to 10 years; interest bearing	Unsecured and secured
	December 31, 2016	-	-	-	27,233		
Joint Ventures	**September 30, 2017**	**88**	**295**	**2,120**	**141**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	72	370	640	8		
Shareholders in Subsidiaries	**September 30, 2017**	**300**	**419**	**148**	**2,635**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	299	711	264	2,596		
Others	**September 30, 2017**	**137**	**1**	**199**	**7,071**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	216	-	113	6,795		
Total	**September 30, 2017**	**P2,608**	**P859**	**P16,016**	**P44,433**		
Total	December 31, 2016	P3,122	P1,558	P13,354	P47,862		

a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. 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:

<u>September 30, 2017 and December 31, 2016</u>

	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, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	1,151	1,403	10,654	871	364	9,117	1,277	-	15,855	40,692
Disposals/reclassifications/acquisition of subsidiaries	(65)	(5,011)	4,611	94,310	(494)	(22,882)	(512)	10	(104,949)	(34,982)
Currency translation adjustments	135	179	-	101	73	714	3	-	26	1,231
December 31, 2016 (Audited)	63,786	51,526	270,347	145,067	16,173	135,556	3,086	5,594	93,340	784,475
Additions	1,290	412	1,232	959	199	4,163	490	-	19,199	27,944
Disposals/reclassifications/acquisition of subsidiaries	279	1,542	16,279	19,239	428	(1,246)	104	-	(37,497)	(872)
Currency translation adjustments	655	1,144	-	862	549	1,762	16	-	110	5,098
September 30, 2017 (Unaudited)	**66,010**	**54,624**	**287,858**	**166,127**	**17,349**	**140,235**	**3,696**	**5,594**	**75,152**	**816,645**
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	271	2,382	6,793	5,008	1,193	7,887	228	87	-	23,849
Disposals/reclassifications/acquisition of subsidiaries	(97)	(1,408)	(2,444)	(18)	(370)	(16,519)	(290)	17	-	(21,129)
Currency translation adjustments	12	133	-	171	26	348	1	-	-	691
December 31, 2016 (Audited)	4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	189	1,564	5,640	4,406	616	5,248	141	11	-	17,815
Disposals/reclassifications/acquisition of subsidiaries	(47)	(153)	-	25	(94)	(1,622)	1	-	-	(1,890)
Currency translation adjustments	39	569	-	629	318	977	10	-	-	2,542
September 30, 2017 (Unaudited)	**4,550**	**24,505**	**44,624**	**43,309**	**12,829**	**90,277**	**1,337**	**4,880**	**-**	**226,311**
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	(1,308)	25	-	-	(1,289)
Currency translation adjustments	-	(32)	-	-	-	77	(1)	-	-	44
December 31, 2016 (Audited)	266	2,024	-	-	-	7,862	24	573	-	10,749
Disposals/reclassifications/acquisition of subsidiaries	-	-	-	-	-	(15)	-	-	-	(15)
Currency translation adjustments	-	169	-	-	-	432	3	-	-	604
September 30, 2017 (Unaudited)	**266**	**2,193**	**-**	**-**	**-**	**8,279**	**27**	**573**	**-**	**11,338**
Carrying Amount										
December 31, 2016 (Audited)	P59,151	P26,977	P231,363	P106,818	P4,184	P42,020	P1,877	P152	P93,340	P565,882
September 30, 2017 (Unaudited)	**P61,194**	**P27,926**	**P243,234**	**P122,818**	**P4,520**	**P41,679**	**P2,332**	**P141**	**P75,152**	**P578,996**

September 30, 2016

	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, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	117	196	-	163	69	1,285	8	-	26,476	28,314
Disposals/reclassifications/acquisition of subsidiaries	27	406	-	94,463	(411)	(16,245)	71	10	(108,954)	(30,633)
Currency translation adjustments	549	810	-	685	444	895	7	-	122	3,512
September 30, 2016 (Unaudited)	63,258	56,367	255,082	145,096	16,332	134,542	2,404	5,594	100,052	778,727
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	203	1,785	5,081	3,510	660	6,520	164	83	-	18,006
Disposals/reclassifications/acquisition of subsidiaries	(93)	(487)	-	(19)	(88)	(15,779)	(126)	17	-	(16,575)
Currency translation adjustments	37	415	-	598	239	499	4	-	-	1,792
September 30, 2016 (Unaudited)	4,330	23,131	39,716	37,177	11,951	85,198	1,288	4,865	-	207,656
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	(1,327)	-	-	-	(1,333)
Currency translation adjustments	-	3	-	-	-	89	-	-	-	92
September 30, 2016 (Unaudited)	266	2,059	-	-	-	7,855	-	573	-	10,753
Carrying Amount										
September 30, 2016 (Unaudited)	P58,662	P31,177	P215,366	P107,919	P4,381	P41,489	P1,116	P156	P100,052	P560,318

Depreciation and amortization charged to operations amounted to P17,815 and P18,006 for the periods ended September 30, 2017 and 2016, 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 effects of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	September 30	
	2017	2016
Net income from continuing operations attributable to equity holders of the Parent Company	**P8,476**	P3,888
Less dividends on CPS for the period	**1,213**	404
Net income from continuing operations attributable to common shareholders of the Parent Company (a)	**7,263**	3,484
Net income from discontinued operations attributable to common shareholders of the Parent Company (b)	**-**	8,054
Net income attributable to common shareholders of the Parent Company	**P7,263**	P11,538
Weighted average number of common shares outstanding (in millions) (c)	**330**	330
Basic and diluted earnings per common share attributable to equity holders of the Parent Company		
Continuing operations (a/c)	**P21.99**	P10.55
Discontinued operations (b/c)	**-**	24.38
	P21.99	P34.93

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

As of September 30, 2017 and 2016, the Parent Company has no dilutive debt or equity instruments.

7. **Dividends**

On August 10, 2017, the Board of Directors (BOD) of the Parent Company declared cash dividends at P418.50 per preferred share, payable on August 11, 2017 to shareholders owning preferred shares as of August 10, 2017.

On November 10, 2017, the BOD of the Parent Company declared cash dividends at P279.00 per preferred share, payable on November 16, 2017 to shareholders owning preferred shares as of November 10, 2017.

On August 10, 2016, the BOD of the Parent Company declared cash dividends at

P279.00 per preferred share, payable on August 12, 2016 to shareholders owning preferred shares as of August 10, 2016.

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, available-for-sale (AFS) financial assets, financial assets at FVPL, 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, finance 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 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 financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; (d) compliance with legal and regulatory requirements, including the disclosure control and procedures; (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 also prepare the reports required to be included in the annual report of the Group.

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. The Audit and Risk Oversight Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

The accounting policies in relation to derivatives are set out in Note 9 to the selected notes to the consolidated financial statements.

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. Investments 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. 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 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 P797 and P1,342 for the period ended September 30, 2017 and for the year ended December 31, 2016, 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.

Interest Rate Risk Table

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

September 30, 2017	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P30,611**	**P26,391**	**P14,897**	**P33,044**	**P50,967**	**P106,282**	**P262,192**
Interest rate	**5.4583% - 12%**	**5.4583% - 10.50%**	**4.9925% - 8.6615%**	**4.3458% - 7.6567%**	**4.0032% - 7.6567%**	**4.5219% - 7.6567%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**-**	**-**	**-**	**26,240**	**26,240**
Interest rate	**-**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,327**	**1,222**	**545**	**540**	**674**	**837**	**5,145**
Interest rate	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or 5.75%, whichever is higher**	**PDST-R2 + margin**	**PDST-R2 + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**5,082**	**28,747**	**23,295**	**8,711**	**8,711**	**–**	**74,546**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P37,020	**P56,360**	**P38,737**	**P42,295**	**P60,352**	**P133,359**	**P368,123**

December 31, 2016	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P28,440	P8,654	P22,539	P13,235	P44,511	P55,361	P172,740
Interest rate	5.65% - 12%	5.4583% - 8.74899%	5.4583% - 10.50%	4.9925% - 8.74899%	4.0032% - 8.74899%	4.5219% - 7.6567%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	-	25,674	25,674
Interest rate	-	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,216	1,304	1,059	545	534	1,379	6,037
Interest rate	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin	
Foreign currency-denominated (expressed in Philippine peso)	2,138	77,230	13,294	23,853	1,893	9,718	128,126
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P31,794	P87,188	P36,892	P37,633	P46,938	P92,132	P332,577

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.

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

	September 30, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,793**	**P91,123**	US$2,011	P99,963
Trade and other receivables	**472**	**24,025**	482	24,069
Prepaid expenses and other current assets	**9**	**468**	5	241
Noncurrent receivables	**10**	**520**	50	2,496
	2,284	**116,136**	2,548	126,769
Liabilities				
Loans payable	**574**	**29,166**	616	30,625
Accounts payable and accrued expenses	**1,414**	**71,790**	1,422	70,769
Long-term debt (including current maturities)	**1,983**	**100,786**	3,093	153,800
Finance lease liabilities (including current portion)	**1,741**	**88,481**	1,880	93,499
Other noncurrent liabilities	**440**	**22,351**	426	21,160
	6,152	**312,574**	7,437	369,853
Net foreign currency-denominated monetary liabilities	**(US$3,868)**	**(P196,438)**	(US$4,889)	(P243,084)

The Group reported net losses on foreign exchange amounting to P3,849 and P7,563 for the periods ended September 30, 2017 and 2016, 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 United States (US) dollar as shown in the following table:

	US Dollar to Philippine Peso
September, 2017	**50.82**
December 31, 2016	49.72
September 30, 2016	48.50
December 31, 2015	47.06

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
September 30, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,480)**	**(P1,403)**	**P1,480**	**P1,403**
Trade and other receivables	**(250)**	**(442)**	**250**	**442**
Prepaid expenses and other current assets	**(1)**	**(8)**	**1**	**8**
Noncurrent receivables	**(12)**	**(14)**	**12**	**14**
	(1,743)	**(1,867)**	**1,743**	**1,867**
Loans payable	**521**	**418**	**(521)**	**(418)**
Accounts payable and accrued expenses	**649**	**1,258**	**(649)**	**(1,258)**
Long-term debt (including current maturities)	**783**	**1,388**	**(783)**	**(1,388)**
Finance lease liabilities (including current portion)	**1,741**	**1,218**	**(1,741)**	**(1,218)**
Other noncurrent liabilities	**433**	**310**	**(433)**	**(310)**
	4,127	**4,592**	**(4,127)**	**(4,592)**
	P2,384	**P2,725**	**(P2,384)**	**(P2,725)**

December 31, 2016	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,673)	(P1,510)	P1,673	P1,510
Trade and other receivables	(271)	(402)	271	402
Prepaid expenses and other current assets	-	(5)	-	5
Noncurrent receivables	-	(50)	-	50
	(1,944)	(1,967)	1,944	1,967
Loans payable	545	453	(545)	(453)
Accounts payable and accrued expenses	974	1,046	(974)	(1,046)
Long-term debt (including current maturities)	3,047	2,179	(3,047)	(2,179)
Finance lease liabilities (including current portion)	1,880	1,316	(1,880)	(1,316)
Other noncurrent liabilities	283	339	(283)	(339)
	6,729	5,333	(6,729)	(5,333)
	P4,785	P3,366	(P4,785)	(P3,366)

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.

<u>Commodity Price Risk</u>
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.

San Miguel Corporation (SMC) enters into commodity derivative transactions on behalf of its subsidiaries and affiliates 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.

September 30, 2017	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	**P213,020**	**P213,020**	**P213,020**	**P -**	**P -**	**P -**
Trade and other receivables – net	**103,192**	**103,192**	**103,192**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses, other current assets and other noncurrent assets" account)	**430**	**430**	**430**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**172**	**172**	**172**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,064**	**6,107**	**268**	**5,521**	**291**	**27**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**10,782**	**10,824**	**-**	**2,818**	**7,490**	**516**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**8,079**	**8,079**	**2,256**	**5,823**	**-**	**-**
Financial Liabilities						
Loans payable	**175,105**	**175,656**	**175,656**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO) and deferred income)	**141,227**	**141,563**	**141,563**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3,297**	**3,297**	**3,297**	**-**	**-**	**-**
Long-term debt (including current maturities)	**364,812**	**459,586**	**55,181**	**72,573**	**177,939**	**153,893**

Forward

September 30, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Finance lease liabilities (including current portion)	**P174,840**	**P197,693**	**P25,226**	**P26,199**	**P85,152**	**P61,116**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), deferred income and accrual for mine rehabilitation and decommissioning)	**27,974**	**30,928**	**-**	**15,968**	**9,290**	**5,670**

December 31, 2016	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	P203,246	P203,246	P203,246	P -	P -	P -
Trade and other receivables - net	110,966	110,966	110,966	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	84	84	84	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	157	157	157	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	6,057	6,100	96	5,728	172	104
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	7,032	7,086	-	1,549	536	5,001
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	3,884	3,884	3,059	825	-	-
Financial Liabilities						
Loans payable	197,093	197,648	197,648	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	130,352	145,423	145,423	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,475	2,475	2,475	-	-	-
Long-term debt (including current maturities)	329,431	396,740	47,439	100,172	146,987	102,142
Finance lease liabilities (including current portion)	187,105	214,018	24,737	25,011	84,160	80,110
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	25,680	25,784	-	22,759	422	2,603

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.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments
The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

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

	September 30, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	**P210,487**	P201,342
Trade and other receivables - net	**103,192**	110,966
Derivative assets	**430**	84
Financial assets at FVPL	**172**	157
AFS financial assets	**6,064**	6,057
Noncurrent receivables and deposits - net	**10,782**	7,032
Restricted cash	**8,079**	3,884
	P339,206	P329,522

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL, AFS financial assets and restricted cash is considered negligible, since the counterparties are 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 AFS financial assets). 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 reserve are excluded from capital for purposes of capital management.

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

9. Financial Assets and Financial Liabilities

Date of Recognition. 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. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

<u>*Financial Assets*</u>
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes 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 and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash are included under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities 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 and, where allowed and appropriate, re-evaluates such designation at every reporting date. 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 profit or loss. 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 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 rate 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.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance 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.

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 assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred from other comprehensive income and recognized in the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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.

Debt Issue Costs
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 rate 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.

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

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

	September 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P213,020**	**P213,020**	P203,246	P203,246
Trade and other receivables - net	**103,192**	**103,192**	110,966	110,966
Derivative assets (included under "Prepaid expenses, other current assets, and other noncurrent assets" account)	**430**	**430**	84	84
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**172**	**172**	157	157

Forward

	September 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**P6,064**	**P6,064**	P6,057	P6,057
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**10,782**	**10,782**	7,032	7,032
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**8,079**	**8,079**	3,884	3,884
Financial Liabilities				
Loans payable	**175,105**	**175,105**	197,093	197,093
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**141,227**	**141,227**	130,352	130,352
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3,297**	**3,297**	2,475	2,475
Long-term debt (including current maturities)	**364,812**	**390,597**	329,431	347,354
Finance lease liabilities (including current portion)	**174,840**	**174,840**	187,105	187,105
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income and accrual for mine rehabilitation and decommissioning)	**27,974**	**27,974**	25,680	25,680

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 AFS Financial Assets. 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. Unquoted equity securities are carried at cost less impairment.

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, Finance 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

2.0% to 4.7% and 1.8% to 4.9% as of September 30, 2017 and December 31, 2016, respectively. The discount rates used for foreign currency-denominated loans range from 1.2% to 2.0% and 1.1% to 2.2% as of September 30, 2017 and December 31, 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments
The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Freestanding Derivatives
For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

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 documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of September 30, June 30 and March 31, 2017 and December 31, 2016.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of September 30, June 30 and March 31, 2017 and December 31, 2016.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of September 30, June 30 and March 31, 2017 and December 31, 2016.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

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

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

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

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

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.

The Group has not bifurcated any embedded derivatives as of September 30, June 30 and March 31, 2017 and December 31, 2016.

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 September 30 and June 30, 2017 and December 31, 2016, 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 P1,616, P1,561 and P1,288 as of September 30 and June 30, 2017 and December 31, 2016, respectively.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$889, US$899 and US$875 as of September 30 and June 30, 2017 and December 31, 2016, respectively, and with various maturities in 2017. The net positive (negative) fair value of these currency forwards amounted to (P129), P454 and (P38) as of September 30 and June 30, 2017 and December 31, 2016, respectively.

Currency Options
As of September 30 and June 30, 2017 and December 31, 2016, the Group has outstanding currency options with an aggregate notional amount of US$250, US$599 and US$360, respectively, and with various maturities in 2017. The net negative fair value of these currency options amounted to P11, P33 and P150 as of September 30 and June 30, 2017 and December 31, 2016, respectively.

Commodity Swaps
The Group has no outstanding commodity swaps on the purchase of aluminum as of September 30 and June 30, 2017 and December 31, 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017. 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 equivalent notional quantity covered by the commodity swaps is 49 million barrels, 6 million barrels and 26.3 million barrels as of September 30 and June 30, 2017 and December 31, 2016, respectively. The negative fair value of these swaps amounted to P934, P40 and P676 as of September 30 and June 30, 2017 and December 31, 2016, respectively.

The Group has outstanding 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 equivalent notional quantity covered by the commodity swaps is 60,000 metric tons as of September 30, 2017. The positive fair value of these swaps amounted to P31 as of September 30, 2017.

Commodity Options
As of September 30 and June 30, 2017 and December 31, 2016, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

The Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil as of September 30 and June 30, 2017 and December 31, 2016.

Embedded Derivatives
The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$142, US$144 and US$140 as of September 30 and June 30, 2017 and December 31, 2016, 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 negative fair value of these embedded currency forwards amounted to P146, P248 and P239 as of September 30 and June 30, 2017 and December 31, 2016, respectively.

Embedded Currency Options
As of September 30 and June 30, 2017 and December 31, 2016, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P726), (P79), P1,411 and (P1,079) for the periods ended September 30, 2017 and 2016 and June 30, 2017 and 2016, respectively.

<u>Fair Value Measurements</u>
The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2017			December 31, 2016		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P430**	**P430**	P -	P84	P84
Financial assets at FVPL	**-**	**172**	**172**	-	157	157
AFS financial assets	**258**	**5,806**	**6,064**	253	5,804	6,057
Financial Liabilities						
Derivative liabilities	**-**	**3,297**	**3,297**	-	2,475	2,475

The Group has no financial instruments valued based on Level 3 as of September 30, 2017 and December 31, 2016, 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. Events After the Reporting Date

a) *Consolidation of Food and Beverage Businesses of SMC*

On November 3, 2017, the Board of Directors of SMC approved the subscription to additional 4,242,549,130 common shares of stock of San Miguel Pure Foods Company Inc. (SMPFC) (the “New Shares”).

The additional subscription to the common shares of stock of SMPFC by SMC will be issued out of the increase in authorized capital stock of SMPFC after the reduction of the par value of SMPFC common shares from P10.00 to P1.00 per share, and the corresponding amendment of the Articles of Incorporation of SMPFC. The New Shares will be listed at the Philippine Stock Exchange.

The subscription amount for the New Shares is P336,349 which transaction value is based on the independent valuation expert report of ING Bank N.V.

The subscription to the New Shares shall be paid in full through the execution of a deed of exchange between SMC and SMPFC to convey 7,859,319,270 common shares of San Miguel Brewery Inc. (SMB) and 216,972,000 common shares of Ginebra San Miguel Inc. (GSMI) held by SMC. This will result in the consolidation of the Food and Beverage Business units of SMC under SMPFC to be renamed as San Miguel Food and Beverage, Inc.

b) *Sale of 34.83% Equity Interest in Manila North Harbour Port, Inc. (MNHPI) by Petron*

On September 21, 2017, Petron Corporation signed a share purchase agreement with International Container Terminal Services, Inc. for the sale of its investment in 10,449,000 shares of stock or 34.83% equity interest in MNHPI for a total consideration of P1,750. The completion of the sale purchase agreement was subject to several conditions. On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price had been paid.

11. 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 45 (a) of the 2016 Audited Consolidated Financial Statements, that remain outstanding as of September 30, 2017. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. On April 21, 2017, the Philippine Competition Commission (PCC) filed a Petition for Certiorari with prayer for a temporary restraining order and/or writ of preliminary injunction against the Court of Appeals 12th Division and the Philippine Long Distance Telephone Company (PLDT). The petition asks the Supreme Court to (a) issue a TRO or a writ of preliminary injunction to (i) restrain the Court of Appeals from consolidating the case in the 12th division of the Court of Appeals with the case filed by Globe Telecom, Inc. (Globe), (ii) to restrain the Court of Appeals from enforcing the preliminary injunction issued against the PCC which prevents it from proceeding with the pre-acquisition review of the acquisition by PLDT and Globe of the telecommunications business of SMC, and (ii) restrain PLDT from consummating and implementing the acquisition; and (b) dissolving the writ of preliminary injunction issued by the Court of Appeals against PCC, and (c) making permanent the writ of preliminary injunction restraining PLDT from further proceeding with the final payment or performing any action of consummation of the acquisition while the case before the Court of Appeals and the pre-acquisition review and investigation by the PCC of the Acquisition are pending.

   SMC is not a party nor is it impleaded in the case filed by the PCC before the Supreme Court, and neither is it a party in the case pending before the Court of Appeals.

   As of September 30, 2017, the Supreme Court has not issued a temporary restraining order or a writ of preliminary injunction in relation to the case. On May 30, 2017, SMC received the balance of the proceeds from the sale of the telecommunications business to Globe and PLDT.

   On October 23, 2017, the Court of Appeals denied the petition for certiorari and application for the issuance of an injunction filed by the PCC, upholding the acquisition by PLDT and Globe of the telecommunications business of SMC.

g. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

h. 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 September 30, 2017.

i. 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 September 30, 2017. 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 September 30, 2017 and December 31, 2016 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2017 and 2016 for operating efficiency ratios.

	September 2017	December 2016
Liquidity:		
Current Ratio	**1.22**	1.18
Solvency:		
Debt to Equity Ratio	**2.01**	2.08
Asset to Equity Ratio	**3.01**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.26%**	10.68%
Interest Rate Coverage Ratio	**3.36**	3.05

	Period Ended September 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**3%**	8%
Revenue Growth	**20%**	(1%)
Operating Margin	**14%**	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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
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 September 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended September 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2017, 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 have been omitted.

I. 2017 SIGNIFICANT TRANSACTIONS

LONG-TERM DEBT

- **Refinancing of Long-term Debt and Short-term Loan**

- *Shelf Registration of P60,000 Million worth of Fixed Rate Peso-denominated Bonds by San Miguel Corporation (SMC) and Issuance of P30,000 Million Bonds*

  On February 9, 2017, the Philippine Securities and Exchange Commission (SEC) approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of SMC, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 million Fixed Rate Bonds with an Oversubscription Option of P5,000 million Fixed Rate Bonds (collectively, the Bonds).

  The Bonds were issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) on March 1, 2017. The Bonds comprised of five-year Series A Bonds due 2022, seven-year Series B Bonds due 2024, and 10-year Series C Bonds due 2027.

  The Series A, Series B and Series C Bonds have fixed interest rate per annum equivalent to 4.8243%, 5.2840% and 5.7613%, respectively.

  Proceeds from the issuance were used by SMC to partially pay the P25,000 million bridge short-term loan which was availed to partially redenominate the United States dollar (US$)500 million out of the US$1,500 million long-term debt of SMC.

  On March 13, 2017, SMC filed with the SEC the Registration Statement and Offer Supplement for the offer of its second tranche of up to P10,000 million Fixed Rate

Bonds with an oversubscription option of up to P5,000 million Fixed Rate Bonds (the Offer Bonds) under its P60,000 million Shelf Registration.

SMC issued and listed the P10,000 million Bonds in the PDEx on April 7, 2017. The Bonds comprised of five-year Series D Bonds due 2022 with a fixed interest rate per annum equivalent to 5.1923%.

Proceeds from the issuance were used by SMC to refinance the US$200 million short-term bridge loan used to partially redenominate the US$200 million obligation, under the US$300 million Facility Agreement with the final repayment date on November 22, 2017.

This redenomination was executed to eliminate the exposure of SMC to changes in the peso-dollar exchange rates.

- *Payment of the US$700 Million Five-Year Term Loan by SMC Global Power Holdings Corp. (SMC Global)*

  On March 31, 2017, SMC Global paid US$200 million out of the US$700 million five-year term loan drawn in 2013 and 2015 to refinance existing indebtedness and to fund the ongoing construction of power plants in Malita, Davao and Limay, Bataan investments in power-related assets, and for general corporate purposes.

  The payment was funded by the US$200 million short-term bridge financing loan availed on March 30, 2017. The refinancing lowered the interest margin from 1.9% to 1%. In September 2017, SMB Global paid the US$200 million short-term bridge financing from the P5,000 million short-term loan availed in September 2017 and from available funds.

  On April 26, 2017, SMC Global availed of a P15,000 million fixed-rate, seven-year term loan to fund the payment of additional US$300 million out of the US$700 million loan.

  The US$700 million loan of SMC Global was partly refinanced with a peso-denominated loan to minimize the Group's exposure to foreign exchange losses brought about by the continuing Philippine peso (Php) depreciation against the US dollar.

  On August 30, 2017, SMC Global availed of US$200 million short-term bridge loan. The proceeds were used to pay the remaining US$200 million out of the US$700 million loan to reduce interest margin. The US$200 million short-term bridge loan was partially settled for US$24 million.

- *Availment of P42,000 Million Term Loan by SMC Consolidated Power Corporation (SCPC)*

  On May 8, 2017, SCPC availed of a US$360 million short-term bridge financing loan to fund the full payment on May 9, 2017 of the US$359 million loan drawn in 2016 from its US$400 million seven-year term loan facility to finance the ongoing construction of the power plant in Limay, Bataan.

  On June 28, 2017, SCPC availed of a P42,000 million 12 year term - loan. Proceeds from the loan were used for the settlement of the US$360 million short-term bridge financing loan and the acquisition of the 300 Megawatt Power Plant

Project in Limay, Bataan from Limay Premiere Power Corp. (LPPC), also a wholly-owned subsidiary of SMC Global.

- *Availment of US$600 Million Term Loan by Petron Corporation (Petron)*

  On June 28, 2017, Petron drew US$600 million from the US$1,000 million term loan facility which was signed and executed on June 16, 2017. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a spread. The proceeds were used to fully pay the outstanding balances of US$115 million and US$470 million under the US$475 million and US$550 million term loan facilities, respectively.

  The previous loans were prepaid to benefit from the lower interest rate of the new facility.

- *Availment of P15,000 Million Term Loan by Petron*

  On July 25, 2017, Petron drew P15,000 million from a P15,000 million loan facility which was signed and executed on July 14 and July 17, 2017, respectively. The facility is amortized over seven years and is subject to a fixed interest rate of 5.5834% for the first two years and 5.8185% for the succeeding year until the end of the term. The proceeds were used to refinance the P15,000 million short-term bridge loan availed on December 23, 2016 for the acquisition of the 140MW Power Plant in Limay, Bataan.

▪ **Payment of Long-term Debt by San Miguel Brewery Inc. (SMB)**

On April 3, 2017, SMB completed the payment of the P3,000 million Series "D" fixed rate bonds. The Series D bonds was part of the P20,000 million Series "D, E and F" fixed rate bonds issued by SMB in 2012. The payment was funded by cash generated from operations of SMB.

II. FINANCIAL PERFORMANCE

2017 vs. 2016

The Group's consolidated sales revenue for the third quarter of 2017 amounted to P596,981 million, 20% higher than 2016, mainly driven by continuous sales growth from Petron, the Infrastructure business and the combined revenues from the core Beverage, Food and Packaging businesses, which grew 11%.

Consolidated operating income reached P80,837 million, 14% higher than last year as a result of sustained sales growth from the different businesses and effective fixed cost management throughout the group.

The higher interest expense was mainly due to the outright recognition of expense for the unamortized debt issue costs of the pre-terminated foreign currency denominated long-term debt of SMC Global and Petron and the higher average borrowing level and rate of Petron, net of decrease in interest expense due to payment of long-term debt by, MTDME and Series D bonds by SMB.

The increase in interest income was primarily due to higher average US dollar-denominated placements of SMC and average peso placements of SMB and SMC Global. The increase in cash in bank balance came from the proceeds on the sale of investment in shares of stock of Vega Telecom, Inc. (Vega), cash generated from operations of SMB and balance of the proceeds from the P42,000 million 12-year term loan of SMC Global.

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net loss of Angat Hydropower Corporation (Angat Hydro), share of San Miguel Properties Inc. (SMPI) in the higher net income of Bank of Commerce, net of provision by Ginebra San Miguel Inc. (GSMI) for future losses in Thai San Miguel Liquor Co. Ltd.

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to Mass Rapid Transit Corporation Sdn Bhd. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for the Metro Rapid Transit project of Malaysia.

The decrease in other charges was primarily due to the recognition of lower foreign exchange loss on the translation of the US Dollar denominated long-term debt and loans payable of SMC, SMC Global and Petron and the finance lease liabilities of SMC Global as a result of the lower depreciation of the Philippine peso against the US dollar in 2017 compared to 2016. The decrease in other charges was partly offset by the loss on derivatives which primarily pertains to the loss on commodity hedging of Petron.

The higher income tax expense was mainly due to increase in taxable net income of Petron Malaysia, SMB, San Miguel Foods Inc. (SMFI) and SMPI and the cessation of the income tax holiday of South Luzon Tollway Corporation (SLTC) in December 2016.

Consolidated net income amounted to P39,746 million in 2017.

Share of non-controlling interests (NCI) on the Group's net income increased in 2017 mainly due to the higher net income of Petron and SMB.

Excluding the effect of foreign exchange translation and the income from discontinued operations in 2016, net income for the period ended September 30, 2017 at P43,044 million was 21% higher than the comparable 2016 net income of P35,552 million.

2016 vs. 2015

As a result of completion of the sale of Vega and subsidiaries on May 30, 2016, the line by line consolidation of Vega and subsidiaries were excluded in the consolidated statements of income for the periods ended September 30, 2016 and presented under “Income after income tax from discontinued operations.”

The consolidated sales revenue of the Group for September 2016 amounted to P498,301 million. This is slightly lower than 2015 with the decline in oil prices resulting to lower sales of Petron. Core Beverage, Food and Packaging Businesses continued to post higher sales with 11% revenue growth. The Energy and Infrastructure Businesses also sustained their higher revenues.

The corresponding consolidated operating income of the Group reached about P70,938 million, 25% higher than 2015. Most businesses continued to perform better and sustained double-digit income growth.

The higher interest expense was mainly due to the absence of capitalized interest in 2016, tempered by lower borrowing level and bank charges of Petron.

The decrease in interest income was mainly due to lower average balance of money market placements of SMC, SMC Global and Petron in 2016 compared to the same period in 2015, net of the higher interest income of SMB due to higher average balance of money market placements in 2016 and Infrastructure Group due to nine month-period balance contribution of Atlantic Aurum Investments B.V (AAIBV) Group compared to seven months in 2015.

The increase in equity in net earnings in 2016 primarily represents the share of SMC Global in the lower loss of Angat Hydro, and the share of San Miguel Yamamura Packaging Corporation (SMYPC) in the higher net income of Northern Cement Corporation in 2016. The increase was partly reduced by the recognition of the Group's share in the net income of: AAIBV Group from January 1 to March 5, 2015, and Manila North Harbour Port Inc. from January 1 to September 30, 2015, prior to consolidation.

The decrease in other charges was primarily due to the lower foreign exchange loss as a result of the lower depreciation of the Philippine Peso against the United States Dollar in 2016 compared to 2015. PhP weakened by P1.44 against US$ in September 2016 compared to P2.02 in September 2015.

The higher income tax expense was primarily due to: (a) increase in taxable net income of Petron, SMB, SMC Global and SMFI; (b) recognition of income tax on the dividend income from foreign subsidiaries of Petron; and (c) nine month-period balance contribution of AAIBV Group compared to seven months in 2015.

Income after income tax from discontinued operations in 2016 pertains to the gain on sale of the Telecommunications Business which represents recovery of previous costs, losses, interest expense, and provisions.

Consolidated net income amounted to P41,434 million.

The share of non-controlling interests (NCI) on the Group's net income increased in 2016 mainly due to the additional issuance by SMC Global of undated subordinated capital securities in August 2015, the higher net income of SMC, SMB and Petron in 2016 and the higher net income of Citra Metro Manila Tollways Corporation and South Luzon Tollways Corporation (SLTC), due to nine month-period balance contribution in 2016 compared to seven months in 2015.

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

1. BEVERAGE

2017 vs. 2016

a. San Miguel Brewery Inc.

The performance of SMB for the nine-month period continued to achieve strong growth with consolidated volumes reaching 188.6 million cases, 13% higher than 2016. This was mainly driven by the impressive performance of the domestic operations posting double digit volume growth at 16%, boosted by the effective promotion campaigns and consumer and trade programs that further strengthened its brand equity and increased consumption of the SMB brands.

With higher domestic volumes, coupled with better selling prices, including the contribution from the International operations, consolidated revenues of SMB reached 80,656 million, 16% higher than while operating income grew 14% to P21,408 million.

b. Ginebra San Miguel Inc.

GSMI sustained its growth momentum with sales volumes reaching 20.5 million cases, 14% higher than the same period last year. The flagship brand Ginebra San Miguel and Vino Kulafu continued to post double digit growth which was boosted by the ongoing volume generating programs and equity enhancing campaigns of GSMI.

This drove revenues to reach P15,330 million, 16% higher than last year. Operating income amounted to P947 million, 45% higher than last year.

2016 vs. 2015

a. San Miguel Brewery Inc.

SMB sustained its growth momentum in the third quarter to register an 18% increase in consolidated revenues at P69,298 million by end-September. Operating income likewise showed big improvement with a 19% growth to reach P18,714 million.

The favorable financial results were driven by strong domestic sales volume, with a 15% growth at 145.5 million cases. The intensified conduct of demand generating programs alongside improved consumer income continued to increase consumption of SMB brands.

The International Operations registered 21 million cases in sales volume. This translated to P8,890 million in revenues, 6% higher than 2015, and operating income of P451 million, a significant increase from the same period in 2015. This improvement was led by Indonesia, with higher volumes and improved margins, as well as growth of exports.

b. Ginebra San Miguel Inc.

GSMI continued its strong performance with a 15% growth in sales revenue, on the back of 13% volume growth. Core brands Ginebra San Miguel and Vino Kulafu continued to lead the increase in overall volume to 17.9 million cases in September 2016. Corresponding sales revenue amounted to P13,202 million.

Operating income jumped 65% to P654 million.

2. FOOD

2017 vs. 2016

San Miguel Pure Foods Company Inc. (SMPFC) sustained its good performance during the nine months period, registering consolidated revenues of P84,452 million, 5% higher than last year as the Poultry, Fresh Meats and Value-Added Meats businesses continued to post higher volumes and favorable selling prices.

The continuous drive to improve operational efficiencies coupled with better sales mix and lower costs of some major raw materials further increased operating income to reach P6,750 million, 20% higher than the previous year.

2016 vs. 2015

SMPFC and its subsidiaries posted a revenue growth of 5%, bringing consolidated revenue in September 2016 to P80,582 million.

Agro-Industrial Cluster achieved a 7% revenue growth as sales volume of Poultry and Feeds Businesses improved, coupled with better market prices of chicken.

Branded Value-added Cluster maintained its good performance as it attained a 7% revenue growth, coming from the strong brand leadership of Magnolia and Pure Foods.

The consolidated operating income of Food Group reached P5,613 million, which was ahead of 2015 results by 25%.

3. PACKAGING

2017 vs. 2016

The consolidated revenues of the San Miguel Yamamura Packaging Group (SMYPG) for the nine-month period grew 13% to P22,360 million from last year. The growth was largely due to higher sales from the metal and plastics businesses and continued growth in contribution from the Australian operations. Operating income grew by 13% to P2,162 million, from the previous year.

2016 vs. 2015

The sales revenue of SMYPG for year-to-date September 2016 amounted to P19,749 million, 9% higher than 2015. Lower requirements of beverage clients tempered growth in glass revenues during the third quarter of 2016 and posted an 8% increase in sales as of September 30, 2016 from the 14% growth reported in the first semester of 2016. On the other hand, Metal Business delivered strong performance in the third quarter of 2016 from its domestic and international operations with the increase in sales to beverage clients and sustained export sales.

With better fixed cost management, the corresponding operating income increased by 12% to P1,919 million in September 2016.

4. ENERGY

2017 vs. 2016

SMC Global posted consolidated off-take volume of 12,818 gigawatt hours (GWH) for the nine-month period, 6% lower than last year which was mainly due to lower bilateral volumes from the Sual and Ilijan power plants. The Ilijan Power plant underwent a scheduled annual maintenance shutdown, concurrently with the Malampaya gas facility from January 28 to February 16, 2017. Likewise, Sual Power Plant's Unit 2 encountered a shutdown starting on June 14, 2017 and is scheduled to be synchronized to the grid on November 10, 2017 using a temporary replacement transformer. The installation of a permanent replacement transformer is expected to be completed in February 2018.

However, the start of the commercial operation of Units 1 for both the new power plants in Malita, Davao and Limay, Bataan and the improvement in San Roque plant's power dispatch covered up for the power requirements needed.

Revenues ended 2% higher than last year to P62,117 million brought about by higher average realization prices and spot market price. Operating income was 14% lower than the previous year at P19,668 million, as a result of higher fuel costs (coal and natural gas prices), replacement power purchases, lower bilateral volumes from both Sual and Ilijan and the sale of the Limay Cogen in 2016.

2016 vs. 2015

SMC Global's off take volume for year-to-date September 2016 was 13,615 GWH, 10% higher than 2015 mainly due to higher bilateral volumes from Sual and Ilijan plants.

Corresponding consolidated net revenue increased by 3% to P60,700 million as a result of higher volumes, partly offset by lower average realization prices for both spot sales and bilateral customers.

The operating income of the Energy Business in September 2016 amounted to P22,838 million, 18% higher than 2015. Major income contributors are still Sual and Ilijan plants, with Ilijan plant showing a much improved income performance versus 2015.

5. FUEL AND OIL

2017 vs. 2016

The performance of Petron for the nine-month period continued to present outstanding results. The sustained performance of Petron was mainly driven by its continued focus on high-value segments and strong sales volumes from both its Philippines and Malaysian operations.

Combined volumes from the Philippines and Malaysia reached 80.3 million barrels, 1% higher than last year. The sales of Petron in the retail segment grew 8% as a result of its continuing network expansion in both markets coupled with innovative loyalty programs. Its lubricants and high-margin products such as gasoline and Jet A-1, including petrochemicals posted double-digit growth.

2016 vs. 2015

Petron sustained momentum, posting a 47% increase in consolidated net income that reached P7,427 million in September 2016, mainly driven by sustained growth in volume sales.

Consolidated sales volume increased by 7% to 73.3 million barrels in the first three quarters of 2016. Philippine Operations sold 50.8 million barrels, higher by 7% compared to 2015, while Malaysia also contributed 28.5 million barrels, a 5% improvement from a year ago. Both markets saw substantial growth across all major business segments namely Reseller, Industrial, LPG, and Lubricants.

The effect of lower crude oil and finished product prices offset the increase in sales volume. In September 2016, the consolidated revenue of Petron decreased by 11% to P247,770 million. Corresponding operating income grew 23% to P16,841 million.

6. INFRASTRUCTURE

2017 vs. 2016

The consolidated revenue of the Infrastructure business as of September 30, 2017 reached P16,520 million, 13% higher than last year, mainly driven by the sustained growth in traffic volume from all of our operating toll roads and increase in passenger arrival at the Boracay airport. Operating income grew 9% to P8,086 million.

2016 vs. 2015

For consolidated Infrastructure, the first nine-month period of 2016 ended with P14,672 million in revenues and P7,441 million in operating income, registering 14% and 7% growths, respectively. This is attributed to higher traffic volume. The opening of Carmen Exit in July 2016 and Binalonan Exit in September 2016 for Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) also contributed to the increased traffic volume and revenues.

III. FINANCIAL POSITION

2017 vs. 2016

Consolidated total assets as of September 30, 2017 amounted to P1,468,080 million, P41,094 million higher than December 31, 2016. The increase was primarily due to the increase in cash and cash equivalents, inventories, property, plant and equipment and other noncurrent assets.

The increase in cash and cash equivalents by P9,774 million was mainly on account of the remaining balance of the proceeds from the P42,000 million 12-year term loan availed by SCPC on June 28, 2017 net of funds used for debt refinancing/payment and capital expenditures, and cash generated from operations of SMB, Petron and SMPFC net of payment of loans and capital expenditures.

Trade and other receivables decreased by P7,774 million mainly due to the collection of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega net of the increase in trade receivables of San Miguel Energy Corporation and South Premiere Power Corp. (SPPC) due to higher bilateral sales from external customers.

The increase in inventories by P8,348 million was mainly due to the increased importation by SMPFC of certain major raw materials for feeds and basic flour and the intentional build-up of other major raw materials to support expected increase in volume in the succeeding months, higher prices of crude oil tempered by lower volume of Petron and inventory build-up by the Packaging Business of glass and plastics and physical hedge of resins in anticipation of the peak season for the coming months and price increase, respectively.

Biological assets increased by P498 million mainly due to higher volume of live broilers grown and poultry breeder stocks to support the anticipated demand requirements in 2017.

The decrease in assets held for sale by P119 million was due to the sale of certain machinery and equipment to Northern Cement Corp. by SMC Powergen Inc. in July 2017.

The increase in investments and advances was mainly due to advances for investment made by SMHL to Bryce Canyon Investments Limited.

Noncurrent assets increased by P11,692 million was mainly due to the capitalized project costs incurred for the MRT 7 Project, increase in noncurrent portion of the subsidy receivable from DPWH for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of TPLEX Project, higher noncurrent prepaid input VAT on additional purchases relating to the construction of power plants and the transfer of funds to restricted cash for debt servicing and capital expenditure requirement.

The decrease in loans payable was mainly due to the net payments made by SMC and settlement by Petron of the P15,000 million bridge loan availed on December 23, 2016, offset by availments made by SMC Global and San Miguel Consolidated Power Corporation for Malita, Davao capex requirements.

Accounts payable and accrued expenses increased by P11,803 million mainly due to the purchase and build-up of major raw materials to support expected increase in volume in the peak season and accrual of operating expenses driven by increased level of production of SMFI and higher liabilities for crude and finished product importation of Petron.

The higher amount of long-term debt resulted from the issuance by SMC of fixed rate - bonds on March 1 and April 7, 2017 and the availment by Petron of the P15,000 million term loan, net of payments made by SMB of the Series D Bonds, Infrastructure Group, and Petron Malaysia of their maturing long-term debt.

Deferred tax liabilities increased by P2,358 million mainly due to the: (1) temporary differences arising from the: (a) different method of depreciation used by Petron for tax reporting and financial accounting for the Limay, Bataan power plant and RMP-2 and unrealized foreign exchange differential of Petron, and (b) actual monthly payments to the Power Sector Assets and Liabilities Management Corporation over the finance lease liability-related expenses of SPPC .

The decrease in finance lease liabilities was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

The increase in other noncurrent liabilities was mainly due to retention payable to the contractors of MRT 7 and Bulacan Bulk Water projects, additional long term liability of MNHPI for the purchase of machinery and equipment, the increase in liquefied petroleum gas cylinder deposits, and the recognition of accretion expense and forex loss on the revaluation of the noncurrent liability to the Privatization Management Office by Philnico Industrial Corp.

Equity reserves increased by P521 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

Non-controlling interests increased by P14,524 million mainly due to the share of non-controlling stockholders in the higher net income of SMC, Petron, SMB, SMPFC and Infrastructure and translation adjustments, net of dividends declared to the non-controlling stockholders of SMC, Petron and SMB.

2016 vs. 2015

The Group’s consolidated total assets as of September 30, 2016 amounted to P1,395,242 million, P25,577 million higher than 2015. The increase is primarily due to the recognition of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Trade and other receivables increased by P20,180 million primarily due to the receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Inventories increased by P14,355 million mainly due to higher price of crude and finished products of Petron, build-up of inventories in preparation for peak season sales of SMPFC and higher inventory of full goods and purchase of new bottles and shells to support increase in production volume of the domestic operations of SMB.

Biological assets increased by P396 million mainly due to higher cost to produce growing poultry livestock and increased cost of imported cattle.

Investments and advances increased by P5,124 million in 2016 mainly due to additional investments made by SMC Global in Angat Hydro and Mariveles Power Generation Corporation.

Investment property increased by P2,007 million mainly due to the acquisition by E-fare of land in Mariveles, Bataan for the construction of an industrial park.

Other intangible assets decreased by P17,323 million primarily due to the deconsolidation of licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure projects, such as: Skyway Stage 3, NAIA Expressway, Boracay Airport, Manila North Harbor Development Program and TPLEX in 2016.

Deferred tax assets increased by P2,193 million mainly due to the recognition by SMC of deferred tax asset on net operating loss carry over, provision for doubtful accounts and unrealized foreign exchange loss.

The decrease in loans payable of P9,572 million in 2016 was mainly due to net payments made by Petron.

The decrease in income and other taxes payable of P1,128 million was mainly due to lower income tax payable of SMPFC in 2016 as income tax expense in the fourth quarter of 2015 was higher than the third quarter of 2016, being the peak period for the Food Group and the deconsolidation of Vega's balance.

Dividends payable increased by P1,577 million mainly due to the dividend declared by SMC to its preferred stockholders owning Series 1 and Series 2 – B, C, D, E, F, G, H and I, on August 10, 2016, which was subsequently paid on October 6, 2016. SMC has no outstanding dividends payable to its preferred stockholders as of December 31, 2015.

The decrease in long-term debt was due to the payments made by the Parent Company, SMC, Infrastructure Group, Petron, SMC PowerGen Inc. and SMYPC of their maturing long-term debt. The decrease was partly offset by the availments used to finance the various projects of the Energy Business, and the Infrastructure Business.

The decrease in finance lease liabilities was mainly due to payments, net of interest and foreign exchange rate changes.

Other noncurrent liabilities decreased by P7,886 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment.

The balance of convertible perpetual securities in 2016 represents the issuance made by the Parent Company with an aggregate face value amount of P25,883 million to Bryce Canyon Investments Limited on June 30, 2016.

Equity reserve decreased by P3,513 million primarily due to the increase in ownership interest in ULC BVI and the acquisition of the remaining non-controlling interest in Petrochemical Asia (HK) Limited by Petron.

Cumulative translation adjustments increased by P617 million mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly of Petron, San Miguel International Limited and SMB.

Appropriated retained earnings increased by P1,187 million primarily due to net appropriation made by Petron and SMC Shipping and Lighterage Corporation mainly to finance future capital expenditures.

The increase in non-controlling interests (NCI) pertains mainly to the issuance of 400 million Series "2", in Subseries G, H and I preferred shares of SMC at P75.00 per share on March 30, 2016 and share of NCI in the net income of the Group, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

(In millions)	**September 30**	
	2017	2016
Income during the period	**P39,746**	P41,434
Other comprehensive income	**2,660**	2,938
Addition to non-controlling interests and others	**1,133**	22,920
Issuance of convertible perpetual securities	**-**	25,162
Cash dividends and distributions	**(20,018)**	(19,084)
	P23,521	P73,370

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2017	2016
Net cash flows provided by operating activities	**P75,972**	P44,862
Net cash flows used in investing activities	**(35,727)**	(21,274)
Net cash flows used in financing activities	**(30,257)**	(30,578)

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.

Major components of net cash flows used in investing activities included the following:

(In millions)	**September 30**	
	2017	2016
Additions to property, plant and equipment	**(P27,944)**	(P28,314)
Increase in other noncurrent assets and others	**(20,887)**	(10,866)
Additions to investments and advances and available-for-sale financial assets	**(1,565)**	(7,494)
Acquisition of subsidiaries, net of cash and cash equivalents acquired from business combinations	**(1,265)**	(1,905)
Interest received	**1,641**	2,654
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**13,020**	24,154

Major components of net cash flows used in financing activities included the following:

(In millions)	**September 30**	
	2017	2016
Proceeds from (payments of) long-term debt - net	**P30,802**	(P28,629)
Payment of cash dividends and distributions	**(20,072)**	(17,509)
Payment of finance lease liabilities	**(18,630)**	(17,811)
Payment of short-term loans - net	**(22,740)**	(16,068)
Proceeds from reissuance of treasury shares of a subsidiary - net	**-**	29,722
Proceeds from issuance of convertible perpetual securities - net	**-**	25,162
Decrease in non-controlling interests	**383**	(5,445)

The effect of exchange rate changes on cash and cash equivalents amounted to (P214) million and P2,216 million for the periods ended September 30, 2017 and 2016, respectively.

V. KEY PERFORMANCE INDICATORS

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

	September 2017	December 2016
Liquidity:		
Current Ratio	**1.22**	1.18
Solvency:		
Debt to Equity Ratio	**2.01**	2.08
Asset to Equity Ratio	**3.01**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.26%**	10.68%
Interest Rate Coverage Ratio	**3.36**	3.05

	Periods Ended September 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**3%**	8%
Revenue Growth	**20%**	(1%)
Operating Margin	**14%**	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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
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*