CR05892-2023

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
   Jun 30, 2023
2. SEC Identification Number
   11840
3. BIR Tax Identification No.
   000-100-341-000
4. Exact name of issuer as specified in its charter
   SAN MIGUEL FOOD AND BEVERAGE, INC.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   100 E. Rodriguez Jr. Avenue (C-5 Road), Barangay Ugong, Pasig City, Metro Manila
   Postal Code
   1604
8. Issuer's telephone number, including area code
   (632) 5317-5000
9. Former name or former address, and former fiscal year, if changed since last report
   N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON SHARES (FB)	5,909,220,090
Series A Bonds Due March 2025 (In Peso)	8,000,000,000.00
Series B Bonds Due March 2027 (In Peso)	7,000,000,000.00
Total Debt as of 30Jun23 (In MIL PESO-Conso)	174,161

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, INC. – COMMON SHARES PHILIPPINE DEALING & EXCHANGE CORP. – SERIES A BONDS DUE 2025; SERIES B BONDS DUE 2027
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

SAN MIGUEL
FOOD AND BEVERAGE, INC.

San Miguel Food and Beverage, Inc.
FB

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	Jun 30, 2023
Currency (indicate units, if applicable)	PHP (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2023	Dec 31, 2022
Current Assets	130,440	132,957
Total Assets	341,442	339,478
Current Liabilities	82,604	90,070
Total Liabilities	174,161	180,405
Retained Earnings/(Deficit)	95,305	89,226
Stockholders' Equity	167,281	159,073
Stockholders' Equity - Parent	109,199	103,286
Book Value per Share	18.48	17.48

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	91,401	89,068	184,587	172,122
Gross Expense	79,995	75,201	161,600	145,555

Non-Operating Income	1,791	315	4,481	586
Non-Operating Expense	1,353	1,378	2,610	2,307
Income/(Loss) Before Tax	11,844	12,804	24,858	24,846
Income Tax Expense	2,910	3,197	6,049	6,088
Net Income/(Loss) After Tax	8,934	9,607	18,809	18,758
Net Income Attributable to Parent Equity Holder	5,153	6,338	10,806	12,509
Earnings/(Loss) Per Share (Basic)	0.87	1.07	1.83	2.12
Earnings/(Loss) Per Share (Diluted)	0.87	1.07	1.83	2.12

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	3.48	3.47
Earnings/(Loss) Per Share (Diluted)	3.48	3.47

Other Relevant Information

Please see attached SEC Form 17-Q (Quarterly Report) of the Company for the period ended June 30, 2023 submitted to the Securities and Exchange Commission via email at ictdsubmission@sec.gov.ph on August 14, 2023.

Filed on behalf by:

Name	Alexandra Trillana
Designation	Corporate Secretary and Compliance Officer

SEC COPY

COVER SHEET

	1	1	8	4	0				

S. E. C. Registration Number

	S	A	N		M	I	G	U	E	L		F	O	O	D				
	A	N	D		B	E	V	E	R	A	G	E	,		I	N	C	.	

(Company's Full Name)

	1	0	0		E	.	R	O	D	R	I	G	U	E	Z		J	R	.
	A	V	E	N	U	E		C	-	5		R	O	A	D	,			
	B	A	R	A	N	G	A	Y		U	G	O	N	G					
	P	A	S	I	G		C	I	T	Y		1	6	0	4				
	M	E	T	R	O		M	A	N	I	L	A							

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 5 317-5450

Company Telephone Number

SEC Form

		1	7	-	Q		

Month Day

Day

FORM TYPE

Month

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

- - - - - - - - - - - - - - - - -

STAMPS

- - - - - - - - - - - - - - - - -

Remarks = pls. Use black ink for scanning purposes

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 **June 30, 2023**

2. SEC Identification Number **11840**

3. BIR Tax Identification No. **000-100-341-000**

4. Exact name of issuer as specified in its charter **SAN MIGUEL FOOD AND BEVERAGE, INC.**

5. **Philippines**
   Province, Country or other jurisdiction
   Of incorporation or organization

6. ______ SEC Use Only
   Industry Classification Code

7. **100 E. Rodriguez Jr. Avenue (C5 Road), Barangay Ugong, Pasig City**
   Address of issuer's principal office
   1604
   Postal code

8. **(02) 5317-5000**
   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 Section 4 and 8 of the RSA

	Number of Shares Issued and Outstanding and Total Liabilities (As of June 30, 2023)
Common Shares - P1.00 par value	**5,909,220,090**
Series A Bonds Due March 2025	**P8,000,000,000**
Series B Bonds Due March 2027	**P7,000,000,000**
Total Liabilities (in '000,000)	**P174,161**

11. Are any or all these securities listed on the Philippine Stock Exchange?

    Yes (√) No ( )

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 Revised Securities Act (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 San Miguel Food and Beverage, Inc. ("SMFB" or the "Parent Company") and its subsidiaries (SMFB and its subsidiaries collectively, the "Group") as of and for the period ended June 30, 2023 (with comparative figures as of December 31, 2022 and for the period ended June 30, 2022) and Selected Notes to the Consolidated Financial Statements are 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, as amended" is attached hereto as **Annex "B"**.

PART II - OTHER INFORMATION

SMFB may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which would otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.

NONE

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 **SAN MIGUEL FOOD AND BEVERAGE, INC.**

Signature and Title **ILDEFONSO B. ALINDOGAN**
Vice President, Chief Finance Officer and Chief Strategy Officer

Date August 14, 2023

Annex "A"

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2023 and December 31, 2022 and
For the Periods Ended June 30, 2023 and 2022

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND DECEMBER 31, 2022
(In Millions)

	Note	**2023 Unaudited**	2022 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 9*	**P52,696**	P41,099
Trade and other receivables - net	*6, 8, 9*	**19,359**	22,110
Inventories		**47,579**	60,746
Current portion of biological assets - net		**3,686**	3,418
Prepaid expenses and other current assets	*6, 8, 9*	**7,120**	5,412
Assets held for sale		-	172
Total Current Assets		**130,440**	132,957
Noncurrent Assets			
Investments - net	*6, 8, 9*	**17,093**	17,143
Property, plant and equipment - net	*4*	**110,889**	106,611
Right-of-use assets - net		**4,837**	5,171
Investment property - net		**3,552**	3,638
Biological assets - net of current portion		**2,912**	2,671
Goodwill - net		**996**	996
Other intangible assets - net		**39,305**	39,365
Deferred tax assets		**2,582**	2,510
Other noncurrent assets - net	*6, 8, 9*	**28,836**	28,416
Total Noncurrent Assets		**211,002**	206,521
		P341,442	P339,478
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*6, 8, 9*	**P9,594**	P21,055
Trade payables and other current liabilities	*6, 8, 9*	**59,675**	62,536
Lease liabilities - current portion	*6, 8, 9*	**403**	432
Income and other taxes payable		**9,584**	5,474
Dividends payable	*5*	**395**	67
Current maturities of long-term debt – net of debt issue costs	*8, 9*	**2,953**	506
Total Current Liabilities		**82,604**	90,070
Noncurrent Liabilities			
Long-term debt – net of current maturities and debt issue costs	*8, 9*	**80,049**	77,733
Deferred tax liabilities		**29**	23
Lease liabilities – net of current portion	*6, 8, 9*	**4,872**	5,041
Other noncurrent liabilities	*6, 8, 9*	**6,607**	7,538
Total Noncurrent Liabilities		**91,557**	90,335

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

	2023 Unaudited	2022 Audited
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**P6,251**	P6,251
Additional paid-in capital	**366,620**	366,620
Equity adjustments from common control transactions	**(327,793)**	(327,793)
Equity reserves	**(1,002)**	(836)
Retained earnings:		
Appropriated	**45,394**	31,366
Unappropriated	**49,911**	57,860
Treasury stock	**(30,182)**	(30,182)
	109,199	103,286
Non-controlling Interests	**58,082**	55,787
Total Equity	**167,281**	159,073
	P341,442	P339,478

See Accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

**SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022
(In Millions, Except Per Share Data)**

	Note	2023 Unaudited	2022 Unaudited	For the Quarter Ended 2023 Unaudited	For the Quarter Ended 2022 Unaudited
SALES	*3*	**P184,587**	P172,122	**P91,401**	P89,068
COST OF SALES		**137,472**	122,799	**67,609**	63,526
GROSS PROFIT		**47,115**	49,323	**23,792**	25,542
SELLING AND ADMINISTRATIVE EXPENSES		**(24,128)**	(22,756)	**(12,386)**	(11,675)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(2,463)**	(1,633)	**(1,299)**	(844)
INTEREST INCOME		**1,454**	237	**714**	147
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		**2**	3	**-**	(2)
OTHER INCOME (CHARGES) - Net	*8, 9*	**2,878**	(328)	**1,023**	(364)
INCOME BEFORE INCOME TAX		**24,858**	24,846	**11,844**	12,804
INCOME TAX EXPENSE		**6,049**	6,088	**2,910**	3,197
NET INCOME		**P18,809**	P18,758	**P8,934**	P9,607
Attributable to:					
Equity holders of the Parent Company		**P10,806**	P12,509	**P5,153**	P6,338
Non-controlling interests		**8,003**	6,249	**3,781**	3,269
		P18,809	P18,758	**P8,934**	P9,607
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*7*	**P1.83**	P2.12	**P0.87**	P1.07

See Accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022
(In Millions)

			For the Quarter Ended	
	2023 Unaudited	2022 Unaudited	**2023 Unaudited**	2022 Unaudited
NET INCOME	**P18,809**	P18,758	**P8,934**	P9,607
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurement loss on reserve for retirement plan	**(6)**	(3)	**-**	-
Income tax benefit	**1**	1	**-**	-
Net gain on financial assets at fair value through other comprehensive income	**5**	1	**-**	1
	-	(1)	**-**	1
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations	**(284)**	1,452	**213**	1,108
	(284)	1,452	**213**	1,108
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**(284)**	1,451	**213**	1,109
TOTAL COMPREHENSIVE INCOME - Net of tax	**P18,525**	P20,209	**P9,147**	P10,716
Attributable to:				
Equity holders of the Parent Company	**P10,640**	P13,160	**P5,243**	P6,822
Non-controlling interests	**7,885**	7,049	**3,904**	3,894
	P18,525	P20,209	**P9,147**	P10,716

See Accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Equity Reserves										
		Capital Stock								Retained Earnings		Treasury Stock				
	Note	Common	Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Non-controlling Interests	Total Equity
As at January 1, 2023 (Audited)		P5,951	P300	P366,620	(P327,793)	(P1,880)	P12	P1,109	(P77)	P31,366	P57,860	(P182)	(P30,000)	P103,286	P55,787	P159,073
Remeasurement loss on reserve for retirement plan, net of deferred tax		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	(4)	(5)
Net gain on financial assets at fair value through other comprehensive income		-	-	-	-	-	5	-	-	-	-	-	-	5	-	5
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	(170)	-	-	-	-	-	(170)	(114)	(284)
Other comprehensive income (loss)		-	-	-	-	(1)	5	(170)	-	-	-	-	-	(166)	(118)	(284)
Net income		-	-	-	-	-	-	-	-	-	10,806	-	-	10,806	8,003	18,809
Total comprehensive income (loss)		-	-	-	-	(1)	5	(170)	-	-	10,806	-	-	10,640	7,885	18,525
Appropriation – net		-	-	-	-	-	-	-	-	14,028	(14,028)	-	-	-	-	-
Cash dividends declared	*5*	-	-	-	-	-	-	-	-	-	(4,727)	-	-	(4,727)	(5,590)	(10,317)
As at June 30, 2023 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,881)	P17	P939	(P77)	P45,394	P49,911	(P182)	(P30,000)	P109,199	P58,082	P167,281

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

	Note	Capital Stock Common	Capital Stock Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Equity Reserves: Reserve for Retirement Reserve	Equity Reserves: Fair Value Reserve	Equity Reserves: Translation Reserve	Equity Reserves: Other Equity Reserve	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Treasury Stock Common	Treasury Stock Preferred	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company														
As at January 1, 2022 (Audited)		**P5,951**	**P300**	**P366,620**	**(P327,793)**	**(P1,131)**	**P12**	**P246**	**(P77)**	**P31,043**	**P48,448**	**(P182)**	**(P30,000)**	**P93.437**	**P52,025**	**P145,462**
Remeasurement loss on reserve for retirement plan		-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	(1)	(2)
Net gain on financial assets at fair value through other comprehensive income		-	-	-	-	-	-	1	-	-	-	-	-	1	-	1
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	651	-	-	-	-	-	651	801	1,452
Other comprehensive income (loss)		-	-	-	-	(1)	-	652	-	-	-	-	-	651	800	1,451
Net income		-	-	-	-	-	-	-	-	-	12,509	-	-	12,509	6,249	18,758
Total comprehensive income (loss)		-	-	-	-	(1)	-	652	-	-	12,509	-	-	13,160	7,049	20,209
Reversal of appropriation		-	-	-	-	-	-	-	-	(3,582)	3,582	-	-	-	-	-
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(4,727)	-	-	(4,727)	(4,612)	(9,339)
As at June 30, 2022 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,132)	P12	P898	(P77)	P27,461	P59,812	(P182)	(P30,000)	P101,870	P54,462	P156,332

See Accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022
(In Millions)

	Note	**2023 Unaudited**	2022 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P24,858**	P24,846
Adjustments for:			
Depreciation and amortization	*4*	**7,280**	6,084
Interest expense and other financing charges		**2,463**	1,633
Retirement costs		**673**	644
Provision for impairment losses on receivables and write-down of inventories		**560**	742
Gain on sale of investments and property and equipment		**(3)**	(3)
Gain on fair valuation of agricultural produce		**(4)**	(56)
Dividend income		**(68)**	(65)
Interest income		**(1,454)**	(237)
Other charges (income) - net on derivative transactions		**(12)**	243
Operating income before working capital changes		**34,293**	33,831
Decrease (increase) in:			
Trade and other receivables		**2,845**	4,527
Inventories		**13,029**	(477)
Current portion of biological assets		**(268)**	(299)
Prepaid expenses and other current assets		**(1,743)**	435
Increase in trade payables and other current liabilities		**1,201**	619
Cash generated from operations		**49,357**	38,636
Income taxes paid		**(2,546)**	(6,042)
Interest paid		**(5,761)**	(2,113)
Contributions paid		**(401)**	(162)
Interest received		**1,377**	226
Net cash flows provided by operating activities		**42,026**	30,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and investment property	*4*	**(6,640)**	(7,779)
Increase in biological assets, intangible assets and other noncurrent assets		**(6,879)**	(2,885)
Proceeds from sale of investments and property and equipment		**122**	12
Dividends received		**68**	65
Net cash flows used in investing activities		**(13,329)**	(10,587)

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

	2023 Unaudited	2022 Unaudited
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	**P129,656**	P8,188
Long-term borrowings	**4,962**	6,948
Payments of:		
Short-term borrowings	**(141,117)**	(10,459)
Long-term borrowings	**(260)**	(7,094)
Cash dividends paid	**(9,989)**	(8,755)
Payment of lease liabilities	**(249)**	(322)
Net cash flows used in financing activities	**(16,997)**	(11,494)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(103)**	756
NET INCREASE IN CASH AND CASH EQUIVALENTS	**11,597**	9,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**41,099**	41,581
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P52,696**	P50,801

See Accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Chief Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data)

1. Reporting Entity

San Miguel Food and Beverage, Inc. (SMFB or the "Parent Company"), a subsidiary of San Miguel Corporation (SMC or the "Intermediate Parent Company"), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in October 1956.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed in the Philippine Stock Exchange (PSE) since 1973 and 2011, respectively. Top Frontier Investment Holdings, Inc. ("Top Frontier") is the ultimate parent company of SMFB and its subsidiaries (SMFB and its subsidiaries collectively referred to as the "Group"). SMC and Top Frontier are both public companies under Section 17.2 of the Securities Regulation Code.

The accompanying consolidated financial statements comprise the financial statements of the Group and the Group's interests in joint ventures.

The Group is engaged in various business activities, which as of reporting date include poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, spreads, and dairy-based products, importation and marketing of coffee and coffee-related products, and grain terminal handling. Following the corporate reorganization in June 2018, the Group is also engaged in manufacturing, selling and distribution of alcoholic and non-alcoholic beverages.

2. Summary of Significant Accounting and Financial Reporting Policies

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 2, 2023.

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

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

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

Adoption of Amendments to Standards

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

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

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

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

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

New and Amendments to Standards Not Yet Adopted

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

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

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

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

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

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

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

- Classification of Liabilities as Current or Noncurrent - 2020 Amendments and Noncurrent Liabilities with Covenants - 2022 Amendments (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

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

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

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

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

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with early application permitted.

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

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

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

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

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB). Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9, *Financial Instruments*, will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 on or before the date of initial application of PFRS 17.

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

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

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

3. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed by SMC 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 has three reportable segments, namely: Food, Beer and Non-alcoholic Beverages (NAB), and Spirits. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Food Segment is engaged in (i) the processing and marketing of branded value-added refrigerated processed meats, canned meats, ready-to-eat viands, seafood and plant-based food products, the manufacture and marketing of butter, margarine, cheese, milk, ice cream and salad aids, the marketing of flour mixes, and the importation and marketing of coffee products (collectively known as "Prepared and Packaged Food"); (ii) the production and sale of feeds, veterinary medicine and pet care products ("Animal Nutrition and Health"); (iii) poultry and livestock farming, and the processing and sale of poultry and fresh meats ("Protein"); and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, foodservice and international operations ("Others").

The Beer and NAB segment is engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets.

The Spirits segment is engaged in the production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants which are available nationwide, while some are exported to select countries.

Inter-segment Transactions

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

Financial information about reportable segments follows:

	Food**		Beer and NAB		Spirits		Total Reportable Segments		Eliminations		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Sales												
External sales	**P85,065**	P83,993	**P74,118**	P64,984	**P25,404**	P23,145	**P184,587**	P172,122	**P-**	P-	**P184,587**	P172,122
Inter-segment sales	**-**	-	**1**	1	**2**	3	**3**	4	**(3)**	(4)	**-**	-
Total sales	**P85,065**	P83,993	**P74,119**	P64,985	**P25,406**	P23,148	**P184,590**	P172,126	**(P3)**	(P4)	**P184,587**	P172,122
Results												
Segment results*	**P3,181**	P8,569	**P16,430**	P14,727	**P3,376**	P3,271	**P22,987**	P26,567	**P-**	P-	**P22,987**	P26,567

**Gross profit less selling and administrative expenses.*
***Includes operating result of the Parent Company*

Disaggregation of Revenue

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

	Food		Beer and NAB		Spirits		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Timing of Revenue Recognition								
Sales recognized at point in time	**P85,055**	P83,981	**P74,118**	P64,984	**P25,404**	P23,145	**P184,577**	P172,110
Sales recognized over time	**10**	12	**-**	-	**-**	-	**10**	12
Total external sales	**P85,065**	P83,993	**P74,118**	P64,984	**P25,404**	P23,145	**P184,587**	P172,122

4. Property, Plant and Equipment

The movements and balances of property, plant and equipment are as follows:

June 30, 2023 and December 31, 2022

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost							
January 1, 2022 (Audited)	P16,300	P34,680	P87,932	P4,179	P1,576	P26,170	P170,837
Additions	7	524	203	62	12	18,770	19,578
Disposals	(2)	(51)	(572)	(154)	(3)	-	(782)
Reclassifications	225	4,371	5,521	2,053	204	(11,559)	815
Currency translation adjustments	63	335	665	29	-	6	1,098
December 31, 2022 (Audited)	16,593	39,859	93,749	6,169	1,789	33,387	191,546
Additions	1	11	63	19	1	6,573	6,668
Disposals	(6)	(74)	(190)	(29)	(1)	-	(300)
Reclassifications	82	2,422	3,687	555	6	(5,953)	799
Currency translation adjustments	(41)	(258)	(685)	3	-	9	(972)
June 30, 2023 (Unaudited)	**16,629**	**41,960**	**96,624**	**6,717**	**1,795**	**34,016**	**197,741**
Accumulated Depreciation							
January 1, 2022 (Audited)	1,550	11,177	49,513	3,161	420	-	65,821
Depreciation	221	1,030	3,447	508	88	-	5,294
Disposals	(2)	(23)	(565)	(151)	-	-	(741)
Reclassifications	(7)	(1)	(154)	8	4	-	(150)
Currency translation adjustments	2	175	363	23	-	-	563
December 31, 2022 (Audited)	1,764	12,358	52,604	3,549	512	-	70,787
Depreciation	110	575	1,834	334	45	-	2,898
Disposals	(6)	(74)	(186)	(28)	(1)	-	(295)
Reclassifications	6	69	181	1	-	-	257
Currency translation adjustments	1	(90)	(317)	(6)	-	-	(412)
June 30, 2023 (Unaudited)	**1,875**	**12,838**	**54,116**	**3,850**	**556**	**-**	**73,235**
Accumulated Impairment Losses							
January 1, 2022 (Audited)	38	3,392	10,427	73	1	-	13,931
Disposals	-	(4)	(1)	(3)	-	-	(8)
Reclassifications	(38)	(1)	(29)	-	-	-	(68)
Currency translation adjustments	-	28	262	3	-	-	293
December 31, 2022 (Audited)	-	3,415	10,659	73	1	-	14,148
Currency translation adjustments	-	(147)	(382)	(2)	-	-	(531)
June 30, 2023 (Unaudited)	**-**	**3,268**	**10,277**	**71**	**1**	**-**	**13,617**
Carrying Amount							
December 31, 2022 (Audited)	P14,829	P24,086	P30,486	P2,547	P1,276	P33,387	P106,611
June 30, 2023 (Unaudited)	**P14,754**	**P25,854**	**P32,231**	**P2,796**	**P1,238**	**P34,016**	**P110,889**

June 30, 2022

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost							
January 1, 2022 (Audited)	P16,300	P34,680	P87,932	P4,179	P1,576	P26,170	P170,837
Additions	3	12	54	39	-	7,666	7,774
Disposals	-	(12)	(333)	(49)	(3)	-	(397)
Reclassifications	8	318	1,358	1,211	76	(1,703)	1,268
Currency translation adjustments	28	355	806	29	-	5	1,223
June 30, 2022 (Unaudited)	**16,339**	**35,353**	**89,817**	**5,409**	**1,649**	**32,138**	**180,705**
Accumulated Depreciation and Amortization							
January 1,, 2022 (Audited)	1,550	11,177	49,513	3,161	420	-	65,821
Depreciation	106	479	1,652	216	42	-	2,495
Disposals	-	(4)	(330)	(48)	-	-	(382)
Reclassifications	(2)	65	26	12	7	-	108
Currency translation adjustments	4	160	397	23	-	-	584
June 30, 2022 (Unaudited)	**1,658**	**11,877**	**51,258**	**3,364**	**469**	**-**	**68,626**
Accumulated Impairment Losses							
January 1, 2022 (Audited)	38	3,392	10,427	73	1	-	13,931
Disposals	-	(4)	-	-	-	-	(4)
Currency translation adjustments	-	94	372	3	-	-	469
June 30, 2022 (Unaudited)	**38**	**3,482**	**10,799**	**76**	**1**	**-**	**14,396**
Carrying Amount							
June 30 2022 (Unaudited)	**P14,643**	**P 19,994**	**P27,760**	**P1,969**	**P1,179**	**P32,138**	**P97,683**

Depreciation and amortization recognized in the consolidated statements of income amounted to P2,898 and P2,495 for the periods ended June 30, 2023 and 2022, respectively.

5. Dividends

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

2023

Class of Shares	**Date of Declaration**	**Date of Record**	**Date of Payment**	**Dividend Per Share**
Common	**February 2, 2023**	**February 17, 2023**	**March 3, 2023**	**P0.40**
	May 9, 2023	**May 24, 2023**	**June 8, 2023**	**0.40**

2022

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	February 3, 2022	February 18, 2022	March 3, 2022	P0.40
	May 4, 2022	May 19, 2022	June 3, 2022	0.40

6. Related Party Disclosures

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

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

The following are the transactions with related parties and the outstanding balances as at June 30, 2023 and December 31, 2022:

	Year	**Revenues from Related Parties**	**Purchases from Related Parties**	**Amounts Owed by Related Parties**	**Amounts Owed to Related Parties**	**Terms**	**Conditions**
Intermediate Parent Company	**June 30, 2023**	**P81**	**P661**	**P5,665**	**P1,058**	On demand except redeemable perpetual securities;	Unsecured;
	December 31, 2022	P280	P1,396	P5,757	P1,615	non-interest bearing	no impairment
Entities under Common Control of the Intermediate Parent Company	**June 30, 2023**	**879**	**20,338**	**1,447**	**20,840**	On demand;	Unsecured;
	December 31, 2022	1,162	39,670	1,523	21,806	non- interest bearing	no impairment
Joint Venture	**June 30, 2023**	**21**	**-**	**-**	**2**	On demand or	Unsecured;
	December 31, 2022	2	202	626	2	less than 2 to 5 years; interest bearing	With impairment
Retirement Plan	**June 30, 2023**	-	-	-	**123**	On demand;	Unsecured;
	December 31, 2022	-	-	-	**-**	non- interest bearing	no impairment
Associate of Intermediate Parent Company	**June 30, 2023**	**66**	**-**	**3,500**	-	5 to 7 years;	Unsecured;
	December 31, 2022	36	-	11,528	-	interest bearing	no impairment
Shareholders in Subsidiaries	**June 30, 2023**	**411**	**3,256**	**132**	**58**	On demand;	Unsecured;
	December 31, 2022	118	5,152	121	54	non-interest bearing	no impairment
Total	**June 30, 2023**	**P1,458**	**P24,255**	**P10,744**	**P22,081**		
Total	December 31, 2022	P1,598	P46,420	P19,555	P23,477		

a. Amounts owed by related parties consist of current and noncurrent receivables, deposits and share in expenses. It also includes investments in equity that pertains to subscription in redeemable perpetual securities and investments in debt securities under investment agreement with Bank of Commerce, both are presented as part of "Investments – net" account in the consolidated statement of financial position.

b. The amounts owed by joint venture includes receivables from Thai San Miguel Liquor Company Limited included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statement of financial position amounting to P540 as at December 31, 2022.

c. Amounts owed to related parties consist of trade and non-trade payables arising from management fees, professional fees, insurance and other services rendered by related parties.

d. The Group has entered into various lease agreements with related parties as a lessor and lessee.

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

7. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and diluted EPS is computed as follows:

	June 30	
	2023	2022
Net income attributable to common shareholders of the Parent Company (a)	**P10,806**	P12,509
Weighted average number of common shares issued and outstanding (in millions) (b)	**5,909**	5,909
Basic and diluted earnings per common share attributable to equity holders of the Parent Company – basic and diluted (a/b)	**P1.83**	P2.12

As at June 30, 2023 and 2022, the Parent Company has no dilutive debt or equity instruments.

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:

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, investments in equity and debt instruments, short-term and long-term loans, and derivative instruments. These financial instruments, except 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, trade payables and other current liabilities, excluding dividends payable and statutory liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as options and currency forwards are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price and foreign currency risks arising from the operating 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 Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, 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 Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

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

The BOD also constituted the Board Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's enterprise risk management (ERM) system to ensure its functionality and effectiveness. The Board Risk Oversight Committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the BOD of the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Group.

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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

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

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

Interest Rate Risk Table
The terms and maturity profile of the interest-bearing long-term borrowings, together with its gross amounts, are shown in the following tables:

June 30, 2023	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Fixed Rate					
Philippine peso-denominated	**P306**	**P31,375**	**P34,638**	**P9,255**	**P75,574**
Interest rate	**3.284%-4.2105%**	**3.284%-6.00%**	**3.2840%-6.8412%**	**3.54830%**	
Floating Rate					
Philippine peso-denominated	**120**	**238**	**238**	**7,344**	**7,940**
Interest rate		**BVAL + margin or BSP TDF overnight rate, whichever is higher**	**BVAL + margin or BSP TDF overnight rate, whichever is higher**	**BVAL + margin or BSP TDF overnight rate, whichever is higher**	
	P426	**P31,613**	**P34,876**	**P16,599**	**P83,514**

December 31, 2022	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Fixed Rate	P390	P24,985	P34,318	P10,975	P70,668
Philippine peso-denominated					
Interest rate	3.284%-4.2105%	3.284%-6.00%	3.284%-6.8412%	3.5483%-4.15%	
Floating Rate	119	238	238	7,405	8,000
Philippine peso-denominated					
Interest rate		BVAL + margin or BSP TDF overnight rate, whichever is higher	BVAL + margin or BSP TDF overnight rate, whichever is higher	BVAL + margin or BSP TDF overnight rate, whichever is higher	
	P509	P25,223	P34,556	P18,380	P78,668

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 P40 and P80 for the period ended June 30, 2023 and for the year ended December 31, 2022, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

The Group uses natural hedges and/or purchases foreign currencies at spot rates, where necessary, to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

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

	June 30, 2023		December 31, 2022	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$262**	**P14,484**	US$256	P14,301
Trade and other receivables	**32**	**1,770**	30	1,677
Noncurrent receivables	**-**	**8**	-	8
	294	**16,262**	286	15,986
Liabilities				
Trade payables and other current liabilities	**122**	**6,742**	157	8,777
Lease liabilities	**1**	**48**	-	-
Other noncurrent liabilities	**-**	**12**	-	-
	123	**6,802**	157	8,777
Net Foreign Currency-denominated Monetary Assets	**US$171**	**P9,460**	US$129	P7,209

The Group reported net gain on foreign exchange amounting to P95 and P30 for the periods ended June 30, 2023 and 2022, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2023	**P55.200**
December 31, 2022	55.755
June 30, 2022	54.975
December 31, 2021	50.999

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
June 30, 2023	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P18)**	**(P258)**	**P18**	**P258**
Trade and other receivables	**(7)**	**(30)**	**7**	**30**
	(25)	**(288)**	**25**	**288**
Trade payables and other current liabilities	**37**	**113**	**(37)**	**(113)**
Lease liabilities	**-**	**1**	**-**	**(1)**
	37	**114**	**(37)**	**(114)**
	P12	**(P174)**	**(P12)**	**P174**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2022	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	(P38)	(P247)	P38	P247
Trade and other receivables	(6)	(29)	6	29
	(44)	(276)	44	276
Loans payable				
Trade payables and other current liabilities	68	141	(68)	(141)
Other noncurrent liabilities	-	-	-	-
	68	141	(68)	(141)
	P24	(P135)	(P24)	P135

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

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

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

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

The Group uses commodity futures, swaps, and options to manage the Group's exposures to volatility in prices of certain commodities such as soybean meal and wheat.

Liquidity Risk
Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The 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.

June 30, 2023	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P52,696**	**P52,696**	**P52,696**	**P -**	**P -**	**P -**
Trade and other receivables - net	**19,359**	**19,359**	**19,359**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**33**	**33**	**33**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Investments" account)	**5,592**	**5,592**	**-**	**-**	**-**	**5,592**
Financial assets at amortized cost (included under "Investments" account)	**11,500**	**13,129**	**797**	**88**	**263**	**11,981**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**166**	**166**	**5**	**18**	**31**	**112**
Financial Liabilities						
Loans payable	**9,954**	**9,571**	**9,571**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding derivative liabilities)	**59,573**	**59,573**	**59,573**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**102**	**102**	**102**	**-**	**-**	**-**
Long-term debt (including current maturities)	**83,002**	**98,498**	**7,095**	**25,921**	**47,738**	**17,744**
Lease liabilities (including current portion)	**5,275**	**11,816**	**734**	**621**	**1,763**	**8,698**
Other noncurrent liabilities	**3,011**	**3,011**	**-**	**2,999**	**-**	**12**

December 31, 2022	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P41,099	P41,099	P41,099	P-	P-	P-
Trade and other receivables - net	22,110	22,110	22,110	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	100	100	100	-	-	-
Financial assets at FVOCI (included under "Investments" account)	5,643	5,643	-	-	-	5,643
Financial assets at amortized cost (included under "Investments" account)	11,500	11,529	-	-	-	11,529
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	156	156	-	-	-	156
Financial Liabilities						
Loans payable	21,055	21,008	21,008	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	62,332	62,332	62,332	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account)	204	204	204	-	-	-
Long-term debt (including current maturities)	78,239	93,900	4,312	16,544	53,080	19,964
Lease liabilities (including current portion)	5,473	6,306	473	391	999	4,443
Other non-current liabilities	5,193	5,193	-	5,181	-	12

<u>Credit Risk</u>

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

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

<u>Trade and Other Receivables</u>

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.

<u>Investment in Debt Instruments</u>

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

Credit Quality

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

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

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

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

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

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

	June 30 2023	December 31 2022
Cash and cash equivalents (excluding cash on hand)	**P52,188**	P40,159
Trade and other receivables - net	**19,359**	22,110
Derivative assets	**33**	100
Financial assets at amortized cost	**11,500**	11,500
Noncurrent receivables and deposits - net	**165**	156
	P83,245	P74,025

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

June 30, 2023	Financial Assets at Amortized Cost 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Total
Cash and cash equivalents (excluding cash on hand)	**P52,188**	**P -**	**P -**	**P -**	**P52,188**
Trade and other receivables - net	**19,359**	**-**	**1,192**	**-**	**20,551**
Derivative assets	**-**	**-**	**-**	**33**	**33**
Financial assets at amortized cost	**11,500**	**-**	**-**	**-**	**11,500**
Noncurrent receivables and deposits - net	**-**	**165**		**-**	**165**
Total	**P83,047**	**P165**	**P1,192**	**P33**	**P 84,437**

December 31, 2022	Financial Assets at Amortized Cost 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Total
Cash and cash equivalents (excluding cash on hand)	P40,159	P-	P-	P-	P40,159
Trade and other receivables - net	22,110	-	1,193	-	23,303
Derivative assets	-	-	-	100	100
Financial assets at amortized cost	11,500	-	-	-	11,500
Noncurrent receivables and deposits - net	-	156	-	-	156
Total	P73,769	P156	P1,193	P100	P75,218

The aging of receivables is as follows:

June 30, 2023	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P13,790**	**P642**	**P423**	**P14,855**
Past due:				
1-30 days	**2,088**	**122**	**120**	**2,330**
31-60 days	**255**	**181**	**55**	**491**
61-90 days	**103**	**58**	**67**	**228**
Over 90 days	**622**	**692**	**1,333**	**2,647**
	P16,858	**P1,695**	**P1,998**	**P20,551**

December 31, 2022	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P14,941	P741	P465	P16,147
Past due:				
1 - 30 days	3,558	160	168	3,886
31 - 60 days	300	69	102	471
61 - 90 days	129	32	94	255
Over 90 days	674	686	1,184	2,544
	P19,602	P1,688	P2,013	P23,303

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period. There are no significant changes in the credit quality of the counterparties during the period.

The credit risk for cash and cash equivalents, derivative assets, investment in debt instruments at amortized cost and financial assets at FVOCI 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 FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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

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

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

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

The Group is not subject to externally-imposed capital requirements.

9. Financial Assets and Financial Liabilities

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

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

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

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

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

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

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

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

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

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

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

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

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

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

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

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

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

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2023		December 31, 2022	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P52,696**	**P52,696**	P41,099	P41,099
Trade and other receivables - net	**19,359**	**19,359**	22,110	22,110
Derivative assets (included under "Prepaid expenses and other current assets" account)	**33**	**33**	100	100
Financial assets at FVOCI (included under "Investments" account)	**5,592**	**5,592**	5,643	5,643
Financial assets at amortized cost (included under "Investments" account)	**11,500**	**11,500**	11,500	11,500
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**165**	**165**	156	156
Financial Liabilities				
Loans payable	**9,954**	**9,954**	21,055	21,055
Trade payables and other current liabilities (excluding derivative liabilities)	**59,573**	**59,573**	62,332	62,332
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**102**	**102**	204	204
Long-term debt (including current maturities)	**83,002**	**87,922**	78,239	74,426
Lease liabilities (including current portion)	**5,275**	**5,275**	5,473	5,473
Other noncurrent liabilities	**3,011**	**3,011**	5,193	5,193

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, and Noncurrent Receivables and Deposits. 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, 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 FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market.

Investment in Debt Instruments. The fair value of investment in debt instruments is estimated as the present value of all future cash flows discounted using prevailing market rate of interest for a similar instrument as of the end of the reporting period.

Loans Payable, Trade Payables and Other Current Liabilities, and Other Noncurrent Liabilities. The carrying amounts of Loans Payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments. In case of other noncurrent liabilities, the carrying amount approximates fair value as at reporting date.

Long-term Debt and Lease Liabilities. The fair value of interest-bearing fixed rate loans is based on the discounted value expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As at June 30, 2023 and December 31, 2022, discount rates used ranges from 5.92% to 6.32% and from 2.65% to 9.04%, respectively.

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, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures, swaps and options.

Derivative Instruments not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives
Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group.

As at June 30, 2023 and December 31, 2022, the Group has no outstanding bought and sold options covering its wheat and soybean meal requirements.

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at June 30, March 31, 2023 and December 31, 2022, the total outstanding notional amount of such embedded currency forwards amounted to US$85, US$114, and US$122, 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 P69, P32 and P104 as at June 30, March 31, 2023 and December 31, 2022, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P49 and P469, and P144 and (P87) for the periods ended June 30, 2023 and 2022, and March 31, 2023 and 2022, respectively.

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

	June 30, 2023	December 31, 2022
Balance at beginning of year	**(P104)**	(P181)
Net change in fair value of derivatives	**49**	(503)
	(55)	(684)
Less fair value of settled instruments	**14**	580
Balance at end of year	**(P69)**	(P104)

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2023			December 31, 2022		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P-**	**P33**	**P33**	P -	P100	P100
Financial assets at FVOCI	**5,592**	**-**	**5,592**	5,643	-	5,643
Financial assets at amortized cost	**11,500**	**-**	**11,500**	11,500	-	11,500
Financial Liabilities						
Derivative liabilities	**-**	**102**	**102**	-	204	204

The Group has no financial instruments valued based on Level 3 as at June 30, 2023 and December 31, 2022. For the period ended June 30, 2023 and for the year ended December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

10. Other Matters

a. Commitments

   The outstanding purchase commitments of the Group amounted to P77,844 and P67,751 as at June 30, 2023 and December 31, 2022, respectively.

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

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

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

11. Event After the Reporting Date

On August 2, 2023, the BOD of the Parent Company declared regular and special cash dividends to all common shareholders of record as of August 16, 2023 amounting to P0.40 and P0.55 per common share, respectively. Cash dividends for common shares is payable on September 1, 2023.

Annex "B"

SAN MIGUEL
FOOD AND BEVERAGE, 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 San Miguel Food and Beverage, Inc. ("SMFB" or the "Parent Company") and its subsidiaries (SMFB and its subsidiaries collectively referred to as the "Group") as at and for the period ended June 30, 2023 (with comparative figures as at December 31, 2022 and for the period ended June 30, 2022). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2023, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with the Philippine Financial Reporting Standards have been omitted.

Operating Segments
The Group has three primary operating segments, namely, the Beer and Non-alcoholic Beverages (NAB) Segment, the Spirits Segment and the Food Segment.

The Beer and NAB Segment is engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets.

The Spirits Segment is engaged in the production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants, which are available nationwide, while some are exported to select countries.

The Food Segment is engaged in (i) the processing and marketing of branded value-added refrigerated processed meats, canned meats, ready-to-eat viands, seafood and plant-based food products, the manufacture and marketing of butter, margarine, cheese, milk, ice cream and salad aids, the marketing of flour mixes, and the importation and marketing of coffee products (collectively known as "Prepared and Packaged Food"); (ii) the production and sale of feeds, veterinary medicine and pet care products ("Animal Nutrition and Health"); (iii) poultry and livestock farming, and the processing and sale of poultry and fresh meats ("Protein"); and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, foodservice and international operations ("Others").

I. FINANCIAL PERFORMANCE

Six months ended June 30, 2023 compared to six months ended June 30, 2022

(in millions)	JUNE 2023	JUNE 2022	HORIZONTAL ANALYSIS INCREASE (DECREASE) AMOUNT	HORIZONTAL ANALYSIS INCREASE (DECREASE) %	VERTICAL ANALYSIS 2023	VERTICAL ANALYSIS 2022
SALES	184,587	172,122	12,465	7%	100%	100%
COST OF SALES	137,472	122,799	14,673	12%	74%	71%
GROSS PROFIT	47,115	49,323	(2,208)	(4%)	26%	29%
SELLING AND ADMINISTRATIVE EXPENSES	(24,128)	(22,756)	(1,372)	6%	(13%)	(13%)
OPERATING RESULTS	22,987	26,567	(3,580)	(13%)	12%	15%
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(2,463)	(1,633)	(830)	51%	(1%)	(1%)
INTEREST INCOME	1,454	237	1,217	514%	1%	0%
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	2	3	(1)	(33%)	0%	0%
OTHER INCOME (CHARGES) - NET	2,878	(328)	3,206	(977%)	2%	(0%)
INCOME BEFORE INCOME TAX	24,858	24,846	12	0%	13%	14%
INCOME TAX EXPENSE	6,049	6,088	(39)	(1%)	3%	4%
NET INCOME	18,809	18,758	51	0%	10%	11%
Attributable to:						
Equity holders of the Parent Company	10,806	12,509	(1,703)	(14%)	6%	7%
Non-controlling interests	8,003	6,249	1,754	28%	4%	4%
	18,809	18,758	51	0%	10%	11%

The Group's first half-year results remained strong as the Group continued to grow its topline despite an increasingly challenging environment, marked by rising cost of raw materials, an increase in excise taxes, as well as elevated logistics costs.

Consolidated sales for the six months ended June 30, 2023 amounted to P184,587 million, 7% higher compared to the same period in 2022, while the consolidated net income amounted to P18,809 million, was maintained versus that of the first half of 2022.

Sales

Consolidated sales increased by 7%, from P172,122 million for the six months ended June 30, 2022 to P184,587 million for the same period in 2023. The increase was mainly due to higher sales volume and average price increases of the Group. Sales in the Beer and NAB Segment increased by 14%, from P64,984 million in 2022 to P74,118 million in 2023, sales in the Spirits Segment increased by 10%, from P23,145 million in 2022 to P25,404 million in 2023, and sales in the Food Segment increased by 1%, from P83,993 million in 2022 to P85,065 million in 2023.

Cost of Sales

Consolidated cost of sales increased by 12%, from P122,799 million for the six months ended June 30, 2022 to P137,472 million for the same period in 2023 relative to higher sales volume of the Group and rising raw material costs. Cost of sales in the Beer and NAB Segment increased by 17%, from P40,455 million in 2022 to P47,255 million in 2023, cost of sales in the Spirits Segment increased by 12%, from P17,063 million in 2022 to P19,172 million in 2023, and cost of sales in the Food Segment increased by 9%, from P65,281 million in 2022 to P71,045 million in 2023.

The following table summarizes the cost of sales for the six months ended June 30, 2023 (in millions):

	Beer and NAB	Spirits	Food	Total
Inventories	P8,426	P7,508	P61,376	P77,310
Excise tax	34,469	10,695	-	45,164
Labor	988	199	1,228	2,415
Others	3,372	770	8,441	12,583
	P47,255	P19,172	P71,045	P137,472

Gross profit

Consolidated gross profit decreased by 4%, from P49,323 million for the six months ended June 30, 2022 to P47,115 million for the same period in 2023. The decrease was primarily due to the increase in raw materials and production costs despite the increase in sales volume of the Group.

Selling and Administrative Expenses
Consolidated selling and administrative expenses increased by 6%, from P22,756 million for the six months ended June 30, 2022 to P24,128 million for the same period in 2023. Broken down per segment, selling and administrative expenses for the Beer and NAB Segment increased by 6%, from P9,802 million in 2022 to P10,433 million in 2023, selling and administrative expenses for the Spirits Segment increased by 2%, from P2,811 million in 2022 to P2,856 million in 2023, and selling and administrative expenses for the Food Segment increased by 7%, from P10,143 million in 2022 to P10,839 million in 2023 (includes other administrative expenses of the Parent Company amounting to P35 million). On a consolidated basis, the increase was primarily due to higher distribution costs, amortization of deferred containers in line with sales volume growth and expenses related to newly-built warehousing facilities and newly-acquired company trucks.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges increased by 51%, from P1,633 million for the six months ended June 30, 2022 to P2,463 million for the same period in 2023. The increase was mainly due to additional loan availments with higher prevailing interest rates and interest related to acquired properties on account.

Interest Income
Consolidated interest income increased by 514%, from P237 million for the six months ended June 30, 2022 to P1,454 million for the same period in 2023. The significant increase was primarily due to higher money market placements with longer maturity period and improved rates, as well as interests earned on investments in debt instruments.

Other Income (charges) - Net
The Group recognized consolidated other income - net amounting to P2,878 million for the six months ended June 30, 2023, compared to consolidated other charges - net amounting to P328 million for the same period in 2022. The increase was primarily due to the Spirits Segment's income recognized from the assignment of product rights, the Beer and NAB Segment's tax credit certificates received during the period, the Group's higher foreign exchange and marked to market gains based on favorable exchange rate movements, and gain on proceeds from insurance claims.

Net Income before Income Tax
Consolidated net income before income tax maintained, amounting to P24,846 million for the six months ended June 30, 2022 versus P24,858 million for the same period in 2023.

Net Income
As a result of the foregoing, SMFB's consolidated net income was almost flat at P18,758 million for the six months ended June 30, 2022 versus P18,809 million for the same period in 2023. Net income of the Beer and NAB Segment increased by 26%, from P10,656 million in 2022 to P13,469 million in 2023, while net income of the Spirits Segment increased by 64%, from P2,483 million in 2022 to P4,077 million in 2023. The Food Segment recognized net income amounting to P1,263 million (inclusive of other administrative expenses of the Parent Company) in the first half of 2023 compared to the net income of P5,619 million for the same period in 2022.

Net Income after Tax and Minority Interest
SMFB's consolidated net income after tax and minority interest decreased by 14%, from P12,509 million for the six months ended June 30, 2022 to P10,806 million for the same period in 2023. Net income after tax and minority interest of the Beer and NAB Segment increased by 26%, from P5,323 million in 2022 to P6,732 million in 2023, net income after tax and minority interest of the Spirits Segment increased by 64%, from P1,882 million in 2022 to P3,089 million in 2023, while net income after tax and minority interest of the Food Segment decreased from P5,304 million in 2022 to P985 million (inclusive of other administrative expenses of the Parent Company) in 2023.

Business Highlights for the period ended June 30, 2023

Beer and NAB
The Beer and NAB Segment posted P74,118 million in consolidated revenues in the first semester of 2023, surpassing the P64,984 million revenue in the same period last year. Favorable volume coupled with the price increase for both domestic and international operations enabled the 14% growth in revenues. Its

domestic operations contributed P66,035 million while its international operations contributed US$147 million.

Cost of sales increased by 17% or P6,800 million with higher sales volume and the effect of the increase in excise taxes for fermented liquors in the Philippines from P39/liter last year to P41/liter effective January 1, 2023. The domestic operations accounted for P42,950 million while the international operations accounted for US$78 million.

Selling and administrative expenses increased by 6% or P631 million mainly due to higher amortization of deferred containers expense, distribution costs and personnel expenses. The domestic operations accounted for P8,540 million while the international operations accounted for US$34 million.

As a result, income from operations grew by 12% from P14,727 million to P16,430 million. The domestic operations contributed P14,545 million while the international operations contributed US$34 million.

Interest income was higher by P985 million due to domestic operations' investment in debt instruments, higher money market placements and improved interest rates for both domestic and international operations.

Interest expense and other financing charges increased by 27% mainly due to the interest of the term loan availments in December 2022 and February 2023.

Other income increased by P1,084 million primarily due to the recognition of the tax credit certificate for the San Mig Light tax case of 2012 and the proceeds from insurance claims for typhoon Odette.

Income tax expense increased by 21% with the higher taxable income from improved operations.

Consolidated net income reached P13,469 million, a 26% improvement from first half last year's P10,656 million. The domestic operations contributed P11,710 million while the international operations contributed US$32 million.

The Beer segment's domestic operations continued its strong performance in the first semester of 2023, with revenues reaching P66,035 million, an increase of 13% or P7,626 million attributable to higher sales volume and the impact of the price increase implemented on March 1, 2023. The volume growth was driven by relevant brand campaigns, visibility drive, seasonal and geo-targeted digital initiatives, as well as intensified offtake-generation and defense programs, coupled with favorable external environment.

Income from operations rose by 7% to P14,545 million compared to the first six months last year on the back of strong first half 2023 performance with the further re-opening of the economy. Net income of P11,710 million, was 20% higher from P9,782 million in the first semester last year.

San Miguel Brewing International Limited (SMBIL) registered a consolidated revenue of US$147 million in the first semester of 2023, 16% higher than the US$126 million recorded in the same period in 2022 on account of improved volumes.

Consolidated volumes rose 16% against the first six months of the previous year driven by the 30% growth of global San Miguel brands including Red Horse across all operating countries and export markets which cushioned the impact of the volume decline of local beer brands. Thailand operations' volumes continued its upward trend with growths in the modern trade off-premise and the traditional on and off-premise channels. Hong Kong operations' volumes was at same level as the first half of last year supported by the growth of the San Miguel brands particularly in the on-premise channel spurred by the lifting of pandemic-related restrictions but was tempered by the volume decline of economy brands in the modern trade off-premise channel. Meanwhile, with all COVID-19 restrictions lifted, South China operations' sales continued to benefit from the steady improvement of market conditions. For the Indonesia operations, while San Miguel and licensed brands continued to register double-digit growth, this was off-set by the drop in the volumes of the local Anker beer brand. SMBIL's Exports business sustained its growth for the period ended June 30, 2023 driven by robust sales to the UAE, Singapore, USA, Angola and some new markets.

SMBIL's consolidated operating income as of June 2023 rose to US$34 million, 66% higher than the US$ 21 million registered in the same period in 2022, due to higher volumes, supported by better margins and lower costs.

Spirits

The Spirits Segment ended the first half of 2023 with P25,404 million in revenues, surpassing same period last year's level by 10% mainly driven by the price increase and higher volume. As a result, gross profit at P6,232 million is up by 2% compared to P6,082 million a year ago.

Interest income peaked at P235 million versus P29 million in the first semester of last year mainly due to the returns earned from the Spirits Segment's investment in debt instruments and money market placements. On the other hand, interest expense is 133% higher at P35 million recognized for the Spirits Segment's defined benefit plan obligation.

Marked-to-market gain on derivatives posted at P36 million as opposed to the P163 million loss in the first half of 2022 as US dollar to Philippine peso exchange rates remained at relatively consistent levels during the first half of 2023.

Other income at P1,848 million, significantly higher versus P23 million in the first six months of previous year, is mainly attributed to the P1,530 million earnings recognized for the transfer of rights of Don Papa products.

The Spirits Segment's consolidated net income grew 64% to P4,077 million from P2,483 million for the period ended June 30, 2022.

Food

The Food Segment posted revenues of P85,065 million for the first half of 2023, modestly increasing by 1% against same period in 2022. Selling price increases implemented by the businesses since the last quarter of 2022 to partly cushion the impact of rising costs of major raw materials and other manufacturing inputs, helped lift revenue. However, this was tempered by a slowdown in sales volume, due to impact of high inflation which, consequently, dampened consumer spending. Limited grown broiler supply in the first few months of the year and the lingering impact of the African Swine Fever (ASF) also hampered the Food Segment's volumes.

> The Protein business, comprised of poultry and fresh meats, recorded revenues of P31,187 million, 9% lower than the same period in 2022. Recent drops in chicken selling prices, brought about by the surge in industry frozen chicken imports, affected revenues of the poultry business, offsetting gains from gradual improvement in chicken supply in the second quarter. Revenues of the fresh meats business, meanwhile, declined against same period last year's level following downsized hog operations amidst prolonged impact of the ASF.
>
> The Animal Nutrition and Health business registered revenues of P22,884 million, 9% higher compared to the first half of 2022, mainly driven by higher selling prices, which cushioned the impact of raw material cost hikes. The impact of industry depopulation caused by ASF and avian flu, however, affected sales volumes.
>
> The Prepared and Packaged Food business, consisting of processed meats, ready-to-eat and plant-based food, dairy, spreads, and coffee businesses, delivered revenues of P23,041 million, up by 8% from year ago level mainly due to better selling prices. Despite tempered consumer spending, sales volume growth was noted for Purefoods Chicken Nuggets, Purefoods Luncheon Meat, Purefoods Chinese Luncheon Meat, as well as Magnolia's butter, refrigerated margarine, cheese, salad aids and all-purpose cream. Volume growth momentum of San Mig Coffee's Sugarfree, Original and Barako variants was likewise sustained.

The Food Segment's cost of sales at P71,045 million was 9% higher compared to same period last year. This was driven by elevated costs of major raw materials such as wheat, corn, soybean meal, imported meat and dairy, as well as higher fuel and power costs. The prolonged Russia-Ukraine tension, global supply constraints and the impact of Philippine peso depreciation likewise contributed to inflationary increase in production costs.

As increase in costs of major raw materials and other production inputs outpaced revenue growth, the Food Segment's gross profit dipped to P14,020 million, 25% lower compared to same period last year's level.

Selling and administrative expenses went up by 7% to P10,804 million, mainly due to increase in manpower and logistics costs.

Considering all the challenges that beset the businesses, the Food Segment's income from operations was heavily weighed down to P3,216 million for the first semester of 2023.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

	JUNE		HORIZONTAL ANALYSIS INCREASE (DECREASE)		VERTICAL ANALYSIS	
(in millions)	2022	2021	AMOUNT	%	2022	2021
SALES	172,122	146,791	25,331	17%	100%	100%
COST OF SALES	122,799	102,303	20,496	20%	71%	70%
GROSS PROFIT	49,323	44,488	4,835	11%	29%	30%
SELLING AND ADMINISTRATIVE EXPENSES	(22,756)	(21,446)	(1,310)	6%	(13%)	(15%)
OPERATING RESULTS	26,567	23,042	3,525	15%	15%	16%
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(1,633)	(1,671)	38	(2%)	(1%)	(1%)
INTEREST INCOME	237	246	(9)	(4%)	0%	0%
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	3	147	(144)	(98%)	0%	0%
OTHER INCOME (CHARGES) - NET	(328)	322	(650)	(202%)	(0%)	0%
INCOME BEFORE INCOME TAX	24,846	22,086	2,760	12%	14%	15%
INCOME TAX EXPENSE	6,088	4,723	1,365	29%	4%	3%
NET INCOME	18,758	17,363	1,395	8%	11%	12%
Attributable to:						
Equity holders of the Parent Company	12,509	11,815	694	6%	7%	8%
Non-controlling interests	6,249	5,548	701	13%	4%	4%
	18,758	17,363	1,395	8%	11%	12%

The Group delivered strong financial results in the first half of 2022, posting its highest level of revenue and profitability since its consolidation in 2018.

Consolidated sales for the six months ended June 30, 2022 amounted to P172,122 million, 17% higher compared to the same period in 2021, while the consolidated net income amounted to P18,758 million, 8% higher than in the same period in 2021. This is attributable to the strength of the Group's brands across all business segments.

<u>Sales</u>
Consolidated sales increased by 17%, from P146,791 million for the six months ended June 30, 2021 to P172,122 million for the same period in 2022. The increase was mainly due to higher sales volume and average price increases of the Group. Sales in the Beer and NAB Segment increased by 20%, from P54,331 million in 2021 to P64,984 million in 2022, sales in the Spirits Segment increased by 14%, from P20,225 million in 2021 to P23,145 million in 2022, and sales in the Food Segment increased by 16%, from P72,235 million in 2021 to P83,993 million in 2022.

<u>Cost of Sales</u>
Consolidated cost of sales increased by 20%, from P102,303 million for the six months ended June 30, 2021 to P122,799 million for the same period in 2022 due to the higher sales volume of the Group, and higher prices of some major raw materials. Cost of sales in the Beer and NAB Segment increased by 19%, from P33,860 million in 2021 to P40,455 million in 2022, cost of sales in the Spirits Segment increased by 13%, from P15,079 million in 2021 to P17,063 million in 2022, and cost of sales in the Food Segment increased by 22%, from P53,364 million in 2021 to P65,281 million in 2022.

The following table summarizes the cost of sales for the six months ended June 30, 2022 (in millions):

	Beer and NAB	Spirits	Food	Total
Inventories	P6,468	P6,644	P56,913	P70,025
Excise tax	30,259	9,674	-	39,933
Labor	863	180	980	2,023
Others	2,865	565	7,388	10,818
	P40,455	P17,063	P65,281	P122,799

Gross profit
Consolidated gross profit increased by 11%, from P44,488 million for the six months ended June 30, 2021 to P49,323 million for the same period in 2022. The increase was primarily driven by the increase in sales volume of the Group.

Selling and Administrative Expenses
Consolidated selling and administrative expenses increased by 6%, from P21,446 million for the six months ended June 30, 2021 to P22,756 million for the same period in 2022. Broken down per segment, selling and administrative expenses for the Beer and NAB Segment increased by 17%, from P8,393 million in 2021 to P9,802 million in 2022, selling and administrative expenses for the Spirits Segment increased by 11%, from P2,532 million in 2021 to P2,811 million in 2022, and selling and administrative expenses for the Food Segment decreased by 4%, from P10,521 million in 2021 to P10,143 million in 2022 (includes other administrative expenses of the Parent Company amounting to P55 million). On a consolidated basis, the increase was primarily due to the increase in personnel expenses, selling and distribution expenses, and advertising expenses.

Interest Expense and Other Financing Charges
Consolidated interest expense and other financing charges decreased by 2%, from P1,671 million for the six months ended June 30, 2021 to P1,633 million for the same period in 2022 as a result of lower outstanding loans and the refinancing of long-term debt at more attractive rates.

Interest Income
Consolidated interest income decreased by 4%, from P246 million for the six months ended June 30, 2021 to P237 million for the same period in 2022 primarily due to lower interest income from money market placements given the drop in interest rates.

Gain on Sale of Investments and Property and Equipment
The Group recognized a gain of P3 million from the disposal and sale of fixed assets in the first half of 2022.

Other Income (charges) - Net
The Group recognized consolidated other charges - net amounting to P328 million for the six months ended June 30, 2022, compared to consolidated other income - net of P322 million for the same period in 2021. The variance was primarily due to marked to market losses on foreign purchase of materials due to the depreciation of the Philippine peso against US dollar, same period last year's higher other income due to the Food Segment's sale of a trademark and the Beer and NAB Segment's gain on insurance proceeds, while the Food Segment incurred higher casualty losses and costs of closed facilities in the current year.

Net Income before Income Tax
As a result of the foregoing, consolidated net income before income tax increased by 12%, from P22,086 million for the six months ended June 30, 2021 to P24,846 million for the same period in 2022.

Income Tax Expense
The income tax expense increased by 29%, from P4,723 million for the six months ended June 30, 2021 to P6,088 million for the same period in 2022 due to the higher taxable income.

Net Income
As a result of the foregoing, SMFB's consolidated net income increased by 8%, from P17,363 million for the six months ended June 30, 2021 to P18,758 million for the same period in 2022. Net income of the Beer and NAB Segment increased by 12%, from P9,507 million in 2021 to P10,656 million in 2022, while net income of the Spirits Segment increased by 19%, from P2,087 million in 2021 to P2,483 million in 2022. The Food Segment recognized net income amounting to P5,619 million (inclusive of other administrative expenses of the Parent Company) in the first half of 2022 compared to the net income of P5,769 million for the same period in 2021.

Net Income after Tax and Minority Interest

SMFB's consolidated net income after tax and minority interest increased by 6%, from P11,815 million for the six months ended June 30, 2021 to P12,509 million for the same period in 2022. Net income after tax and minority interest of the Beer and NAB Segment increased by 11%, from P4,777 million in 2021 to P5,323 million in 2022, net income after tax and minority interest of the Spirits Segment increased by 19%, from P1,581 million in 2021 to P1,882 million in 2022, while net income after tax and minority interest of the Food Segment decreased from P5,457 million in 2021 to P5,304 million (inclusive of other administrative expenses of the Parent Company) in 2022.

Business Highlights for the period ended June 30, 2022

Beer and NAB

The Beer and NAB Segment delivered strong double-digit growth rates in sales volume, revenue and income in the first half of 2022. Total revenue amounted to P64,984 million, a 20% increase over first half last year's P54,331 million owing to an increase in sales volume coupled with a price increase implemented by the domestic operations in October 2021. Volume growth for both alcoholic and non-alcoholic beverages was propelled by San Miguel Brewery Inc.'s (SMB) brand-building and demand-generating programs in key channels coinciding with positive economic growth, less stringent restrictions and election-related spending.

Cost of sales increased by 19% to P40,455 million with the higher sales volume of both domestic and international operations, higher production costs and the increase in excise taxes for fermented liquors in the Philippines effective January 2022.

Selling and administrative expenses was higher by 17% or by P1,409 million mostly due to higher personnel expenses, distribution costs, advertising and promotions expenses and provision for inventory losses. Domestic operations accounted for P8,095 million, while international operations accounted for US$33 million.

These resulted to income from operations of P14,727 million, 22% better than same period in 2021. Domestic operations contributed P13,652 million while international operations contributed US$21 million. SMB's improved performance was fueled by new thematic campaigns, seasonal and geo-targeted digital activations to boost the relevance and value proposition of SMB brands alongside consumer promotions for volume-generation.

Interest income increased from P130 million to P142 million or 9% mainly due to higher money market placements and higher interest rates for domestic operations.

On the other hand, interest expense and other financing charges decreased by 9% with the lower interest rates on outstanding loans.

Other income amounted to P25 million, 94% lower than the same period in 2021 primarily due to lower gain on disposal of North China operations' assets in 2022 and marked to market loss in the domestic operations as a result of the depreciation of the Philippine peso against the US dollar.

Income tax expense increased by 55% as a result of higher income of both domestic and international operations. The 2021 income tax expense was adjusted downward with the implementation of the CREATE law. Without the adjustment in 2021, income tax expense in 2022 would have been higher by only P674 million or 25%.

Consolidated net income rose by 12% from P9,507 million for the first semester last year to P10,656 million for the first semester of 2022. Domestic operations contributed P9,782 million while international operations contributed US$17 million.

SMBIL registered US$126 million in consolidated revenue for the first semester of 2022, 24% higher than same period last year as a result of the increase in volumes.

Volumes of SMBIL's global San Miguel brands, which include all San Miguel brand beers and Red Horse beer, and its local brands, sold in Indonesia, South China, Hong Kong and Vietnam, increased by 34% and 4%, respectively. First quarter 2022 growth rates of 21% versus same period in 2021 improved to 27% in the second quarter due to the gradual reopening of markets in Thailand, Indonesia and in the

Exports business. Incremental volumes from the new wheat ale, San Miguel Cerveza Blanca, also contributed to the high growth rates. The operations in Thailand continued to post higher volumes due to sustained growth in the modern trade off-premise channel, further relaxation of restrictions in key tourist destinations and extended selling hours of alcoholic beverages in outlets. The Indonesia operations also registered favorable volumes due to programs centered on traditional trade outlets served by wholesalers and distributors, tempered by the slower anticipated recovery in the modern trade on-premise outlets. SMBIL's Exports business sustained its volume growth trend throughout the pandemic years. Meanwhile, the Hong Kong, South China and Vietnam operations were still negatively impacted by the COVID-19 resurgence and reimposition of travel and dining restrictions. The Hong Kong operations, however, managed to narrow down the 15% volume decline in the first quarter to 8% in the second quarter as restrictions on social distancing were further eased in the on-premise channel. South China volumes were affected by the more frequent temporary closures of on-premise outlets and lockdowns in the various cities. Similarly, due to the surge of COVID-19 cases, the extended on-premise restrictions throughout most of the first quarter and the varying levels of domestic restrictions imposed by the government in the second quarter led to the volume decline in Vietnam.

SMBIL's consolidated operating income for the six-month period was higher by 53% at US$21 million, primarily driven by favorable volumes and managed fixed costs, despite increasing material and fuel costs.

Spirits

The Spirits Segment continued to broaden its distribution reach and strengthen its brand equity in the first semester of 2022. With growth in volumes and higher selling prices, consolidated revenues jumped 14% to P23,145 million from same period in 2021 of P20,225 million. Gross profit for the first semester ended at P6,082 million, 18% higher than the P5,146 million in the first semester of 2021.

The combined additional spending for advertising and promotional activities, distribution expenses, and personnel costs contributed to the 11% increase in operating expenses to P2,811 million versus the equivalent period in 2021.

Interest income rose 61% to P29 million from first six months of 2021 mainly due to money market placements earning higher interest rates. Moreover, the partial payments of interest-bearing loans led to the reduction in interest expense by P4 million.

The Spirits Segment's performance for the first half of 2022 closed with strong returns manifested by a 19% increase in net income to P2,483 million from P2,087 million in the first half of 2021.

Food

The Food Segment continued to deliver strong topline performance and recorded consolidated revenues of P83,993 million by the end of the first half of 2022, 16% higher than same period in 2021 amidst a very challenging environment. Driving revenue growth were higher sales volume, largely influenced by reopening of the economy, improved sales mix, as well as implementation of price increases across all businesses to partly cushion the impact of increasing costs of major raw materials.

> The Protein business, comprised of the poultry and fresh meats businesses, posted revenues of P34,223 million, up by 3% compared to same period in 2021 level. Revenues of the poultry business grew by 7%, as selling prices of chicken further increased amid a tight supply situation, primarily driven by the surge in demand for chicken especially in the foodservice segment. The business likewise expanded Magnolia chicken offerings through the value-added Timplados® line. Meanwhile, revenues of the fresh meats business declined against same period in 2021 level as a result of the deliberate downsizing of its hog operations. Tight pork supply, on the other hand, kept pork selling prices on the high side.
>
> The Animal Nutrition and Health business, meanwhile, reported revenues of P21,045 million, 31% higher than in the first semester of 2021 due to sustained volume growth from all major feed types that continue to benefit from the opening of new accounts, wider distribution, consistent supply availability and superior feed quality. Revenue growth was also driven by a series of price increases implemented to partly mitigate steep raw material cost hikes.

The Prepared and Packaged Food business, consisting of the processed meats, dairy, spreads and coffee businesses, registered revenues of P21,369 million, higher by 13% against same period in 2021, as the processed meats business sustained volume growth momentum led by its flagship products, Tender Juicy® Hotdogs, Purefoods Chicken Nuggets, Purefoods native line, as well as Purefoods and Star canned products. Emerging products such as Veega® meat-free line and Magnolia salad aids in retail packs continued to benefit from positive consumer acceptance.

The Food Segment's cost of sales increased to P65,281 million in the first half of 2022, 22% higher than in the same period in 2021. Apart from the impact of higher sales volume, cost of sales increased largely on account of higher prices of major commodity raw materials, imported meat and dairy materials, as well as fuel and power, driven by global supply constraints, pandemic-related lockdowns that resulted in international ports congestion and the impact of the depreciation of Philippine peso.

Gross profit reached P18,712 million, almost the same level as in the first semester of 2021, amidst cost pressures brought about by steep increases in input costs.

Selling and administrative expenses of P10,102 million was 4% lower than in the first half of 2021 on account of prudent fixed cost spending and maximized utilization of company-owned facilities.

As a result, the Food Segment registered consolidated operating income of P8,610 million (excluding Parent Company expenses) for the first half of 2022, 3% higher compared to in the same period in 2021.

II. FINANCIAL POSITION

Financial Position as of June 30, 2023 vs December 31, 2022

(in millions)	June 2023	December 2022	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis 2023	2022
ASSETS						
Current Assets						
Cash and cash equivalents	52,696	41,099	11,597	28%	15%	12%
Trade and other receivables - net	19,359	22,110	(2,751)	(12%)	6%	7%
Inventories	47,579	60,746	(13,167)	(22%)	14%	18%
Current portion of biological assets - net	3,686	3,418	268	8%	1%	1%
Prepaid expenses and other current assets	7,120	5,412	1,708	32%	2%	2%
Assets held for sale	-	172	(172)	(100%)	0%	0%
Total Current Assets	130,440	132,957	(2,517)	(2%)	38%	39%
Noncurrent Assets						
Investments - net	17,093	17,143	(50)	(0%)	5%	5%
Property, plant and equipment - net	110,889	106,611	4,278	4%	32%	31%
Right-of-use assets - net	4,837	5,171	(334)	(6%)	1%	2%
Investment property - net	3,552	3,638	(86)	(2%)	1%	1%
Biological assets - net of current portion	2,912	2,671	241	9%	1%	1%
Goodwill - net	996	996	-	0%	0%	0%
Other intangible assets - net	39,305	39,365	(60)	(0%)	12%	12%
Deferred tax assets	2,582	2,510	72	3%	1%	1%
Other noncurrent assets - net	28,836	28,416	420	1%	8%	8%
Total Noncurrent Assets	211,002	206,521	4,481	2%	62%	61%
Total Assets	**341,442**	**339,478**	**1,964**	**1%**	**100%**	**100%**
LIABILITIES AND EQUITY						
Current Liabilities						
Loans payable	9,594	21,055	(11,461)	(54%)	3%	6%
Trade payables and other current liabilities	59,675	62,536	(2,861)	(5%)	17%	18%
Lease liabilities - current portion	403	432	(29)	(7%)	0%	0%
Income and other taxes payable	9,584	5,474	4,110	75%	3%	2%
Dividends payable	395	67	328	490%	0%	0%
Current maturities of long-term debt - net of debt issue costs	2,953	506	2,447	484%	1%	0%
Total Current Liabilities	82,604	90,070	(7,466)	(8%)	24%	27%
Noncurrent Liabilities						
Long-term debt – net of current maturities and debt issue costs	80,049	77,733	2,316	3%	23%	23%
Deferred tax liabilities	29	23	6	26%	0%	0%
Lease liabilities – net of current portion	4,872	5,041	(169)	(3%)	1%	1%
Other noncurrent liabilities	6,607	7,538	(931)	(12%)	2%	2%
Total Noncurrent Liabilities	91,557	90,335	1,222	1%	27%	27%
Equity						
Capital stock	6,251	6,251	-	0%	2%	2%
Additional paid-in capital	366,620	366,620	-	0%	107%	108%
Equity adjustments from common control transactions	(327,793)	(327,793)	-	0%	(96%)	(97%)
Equity reserves	(1,002)	(836)	(166)	20%	(0%)	(0%)
Retained earnings:						
Appropriated	45,394	31,366	14,028	45%	13%	9%
Unappropriated	49,911	57,860	(7,949)	(14%)	15%	17%
Treasury stock	(30,182)	(30,182)	-	0%	(9%)	(9%)
Equity Attributable to Equity Holders of the Parent Company	109,199	103,286	5,913	6%	32%	30%
Non-controlling Interests	58,082	55,787	2,295	4%	17%	16%
Total Equity	167,281	159,073	8,208	5%	49%	47%
Total Liabilities and Equity	**341,442**	**339,478**	**1,964**	**1%**	**100%**	**100%**

Consolidated total assets as of June 30, 2023 amounted to P341,442 million, 1% or P1,964 million higher than December 31, 2022 level. The increase was primarily due to higher cash generated from operations and expansion projects of the Group, offset by lower inventory. Consolidated total liabilities as of June 30, 2023 amounted to P174,161 million, 3% or P6,244 million lower than December 31, 2022 level. The decrease was primarily due to settlement of short-term debt by the Food Segment.

Cash and cash equivalents increased by 28% or by P11,597 million due to higher cash generated from operations and net proceeds from new loan and proceeds from transfer of rights that was offset by payment of dividends and funding of investing activities.

Trade and other receivables decreased by 12% or by P2,751 million due to collection of receivables from peak season sales and better collection efforts.

Inventories decreased by 22% or by P13,167 million mainly due to lower materials and supplies and finished products on hand compared to the ending balance as of December 2022 and usage in the current period of December 2022 bulk shipment of malt.

Biological assets increased by 8% or by P268 million mainly due to the higher growing expenses, which include feed costs and broiler and hog costs.

Prepaid expenses and other current assets increased by 32% or by P1,708 million mainly due to higher input tax balance as a result of the Bureau of Internal Revenue's implementation of quarterly filing of value-added tax (VAT) starting 2023 as compared to the usual monthly filing from prior year, and the Beer and NAB Segment's receipt of tax credit certificates from tax refund cases.

Assets held for sale was cleared due to the disposal of La Pacita trademarks by the Parent Company, and its related fixed assets.

Loans payable decreased by 54% or by P11,461 million due to settlement and lower availments during the period because of improved collection of receivables.

Income and other taxes payable increased by 75% or by P4,110 million due to the higher taxable income of the Group and higher VAT payable due to the implementation of quarterly remittances starting 2023 as compared to 2022's monthly filing.

Dividends payable increased by 490% or by P328 million mainly due to higher dividends declared during the period and unclaimed dividends.

Consolidated total equity as of June 30, 2023 amounted to P167,281 million, 5% or P8,208 million higher than December 31, 2022 level. The increase was primarily due to the net income amounting to P18,809 million less the dividends declared by the Group amounting P10,317 million during the period.

Financial Position as of June 30, 2022 vs December 31, 2021

(in millions)	June 2022	December 2021	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis 2022	2021
ASSETS						
Current Assets						
Cash and cash equivalents	50,801	41,581	9,220	22%	16%	14%
Trade and other receivables - net	18,271	22,857	(4,586)	(20%)	6%	8%
Inventories	44,850	44,429	421	1%	15%	15%
Current portion of biological assets - net	3,405	3,106	299	10%	1%	1%
Prepaid expenses and other current assets	5,567	6,357	(790)	(12%)	2%	2%
Total Current Assets	122,894	118,330	4,564	4%	40%	40%
Noncurrent Assets						
Investments - net	5,559	5,157	402	8%	2%	2%
Property, plant and equipment - net	97,683	91,085	6,598	7%	32%	31%
Right-of-use assets - net	5,226	4,747	479	10%	2%	2%
Investment property - net	3,424	3,385	39	1%	1%	1%
Biological assets - net of current portion	2,592	2,244	348	16%	1%	1%
Goodwill - net	996	996	-	0%	0%	0%
Other intangible assets - net	39,308	39,160	148	0%	13%	13%
Deferred tax assets	2,097	2,137	(40)	(2%)	1%	1%
Other noncurrent assets - net	28,608	30,383	(1,775)	(6%)	9%	10%
Total Noncurrent Assets	185,493	179,294	6,199	3%	60%	60%
Total Assets	**308,387**	**297,624**	**10,763**	**4%**	**100%**	**100%**
LIABILITIES AND EQUITY						
Current Liabilities						
Loans payable	2,920	5,191	(2,271)	(44%)	1%	2%
Trade payables and other current liabilities	61,928	60,817	1,111	2%	20%	20%
Lease liabilities - current portion	470	412	58	14%	0%	0%
Income and other taxes payable	5,415	5,605	(190)	(3%)	2%	2%
Dividends payable	641	57	584	1025%	0%	0%
Current maturities of long-term debt - net of debt issue costs	340	7,180	(6,840)	(95%)	0%	2%
Total Current Liabilities	71,714	79,262	(7,548)	(10%)	23%	27%
Noncurrent Liabilities						
Long-term debt – net of current maturities and debt issue costs	72,969	66,225	6,744	10%	24%	22%
Deferred tax liabilities	26	26	-	0%	0%	0%
Lease liabilities – net of current portion	5,000	4,422	578	13%	2%	1%
Other noncurrent liabilities	2,346	2,227	119	5%	1%	1%
Total Noncurrent Liabilities	80,341	72,900	7,441	10%	26%	24%
Equity						
Capital stock	6,251	6,251	-	0%	2%	2%
Additional paid-in capital	366,620	366,620	-	0%	119%	123%
Equity adjustments from common control transactions	(327,793)	(327,793)	-	0%	(106%)	(110%)
Equity reserves	(299)	(950)	651	(69%)	(0%)	(0%)
Retained earnings:						
Appropriated	27,461	31,043	(3,582)	(12%)	9%	10%
Unappropriated	59,812	48,448	11,364	23%	19%	16%
Treasury stock	(30,182)	(30,182)	-	0%	(10%)	(10%)
Equity Attributable to Equity Holders of the Parent Company	101,870	93,437	8,433	9%	33%	31%
Non-controlling Interests	54,462	52,025	2,437	5%	18%	17%
Total Equity	156,332	145,462	10,870	7%	51%	49%
Total Liabilities and Equity	**308,387**	**297,624**	**10,763**	**4%**	**100%**	**100%**

Consolidated total assets as of June 30, 2022 amounted to P308,387 million, 4% or P10,763 million higher than the December 31, 2021 level. The increase was primarily due to higher cash generated from operations.

Consolidated total liabilities as of June 30, 2022 amounted to P152,055 million, P107 million lower than the December 31, 2021 level. The decrease was primarily due to payment of short-term debt by the Food Segment, and long-term debt of the Beer and NAB Segment offset by unpaid dividends.

Cash and cash equivalents increased by 22% or by P9,220 million due to higher cash generated from operations and collection of receivables.

Trade and other receivables decreased by 20% or by P4,586 million due to collection from peak season sales, lower credit availment of dealers and improved collection efforts.

Biological assets increased by 12% or by P647 million due to increase in costs and volume of flocks loaded compared to December 2021 level.

Prepaid expenses and other current assets decreased by 12% or by P790 million mainly due to the Food Segment's application of creditable taxes to income tax due and lower input tax due to lower purchases as compared to peak season while the Beer and NAB Segment had fully utilized tax credit certificates and had lower deposit of excise taxes.

Investments increased by 8% or by P402 million due to the Beer and NAB Segment's foreign exchange gain.

Property, plant and equipment increased by 7% or by P6,598 million due to the Food Segment's acquisition of transportation units and warehouses and expansion projects of both the Food and Beer and NAB Segments.

Right-of-use assets increased by 10% or by P479 million due to the Food Segment's additional leased properties related to its expansion projects.

Other noncurrent assets decreased by 6% or by P1,775 million mainly due to the Beer and NAB Segment's write-off and culletization of bottles and lower advances to suppliers or contractors due to reclassification to property, plant and equipment.

Loans payable decreased by 44% or by P2,271 million due to settlements made by the Food Segment during the period.

Dividends payable increased by 1025% or by P584 million mainly due to unclaimed dividends not fully paid to stockholders by the Beer and NAB, and Food Segments.

Consolidated total equity as of June 30, 2022 amounted to P156,332 million, 7% or P10,870 million higher than the December 31, 2021 level. The increase was primarily due to the net income amounting to P18,758 million less the dividends declared by the Group amounting P9,339 million during the period.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements for the periods ended June 30, 2023 and 2022 is shown below:

(in millions)	**2023**	**2022**
Net cash flows provided by operating activities	P42,026	P30,545
Net cash flows used in investing activities	(13,329)	(10,587)
Net cash flows used in financing activities	(16,997)	(11,494)

Net cash from operations basically consisted of income for the period and changes in non-cash current assets, certain current liabilities and others.

Net cash used in investing activities include the following:

(in millions)	**2023**	**2022**
Additions to property, plant and equipment and investment property	(P6,640)	(P7,779)
Increase in biological assets, intangible assets and other noncurrent assets	(6,879)	(2,885)
Proceeds from sale of investments and property, and equipment	122	12
Dividends received	68	65

Net cash used in financing activities consist of the following:

(in millions)	**2023**	**2022**
Proceeds from short-term and long-term borrowings	P134,618	P15,136
Payments of short-term and long-term borrowings	(141,377)	(17,553)
Cash dividends paid	(9,989)	(8,755)
Payment of lease liabilities	(249)	(322)

The effect of exchange rate changes on cash and cash equivalents amounted to (P103) million and P756 million for the periods ended June 30, 2023 and 2022, respectively.

IV. 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 periods indicated below.

KPI	As of June 30, 2023	As of December 31, 2022
Liquidity:		
Current Ratio	1.58	1.48
Quick Ratio	0.87	0.70
Solvency:		
Debt to Equity Ratio	1.04	1.13
Asset to Equity Ratio	2.04	2.13
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	19.35%	22.63%
Interest Rate Coverage Ratio	11.10	13.94
Return on Assets	10.20%	10.88%

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022
Operating Efficiency:		
Volume Growth	0.80%	9.00%
Revenue Growth	7.24%	17.26%
Operating Margin	12.45%	15.43%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets – Inventory – Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income*}}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) -1$
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*
** *Excluding preferred capital stock and related additional paid-in capital*

V. OTHER MATTERS

a. Commitments

   The outstanding purchase commitments of the Group amounted to P77,844 million and P67,751 million as at June 30, 2023 and December 31, 2022, respectively.

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

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

c. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation, and there were no changes in contingent liabilities and contingent assets since the last annual reporting date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

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

f. Sales are affected by seasonality of customer purchase patterns. In the Philippines, food and alcoholic beverages, including those the Group produce, generally experience increased sales during the Christmas holiday season. In addition, alcoholic beverages experience increased sales in the summer months, and typically slow down in the third quarter during the rainy season. As a result, performance for any one quarter is not necessarily indicative of what is to be expected for any other quarter or for any year and the Group's financial condition and results of operations may fluctuate significantly from quarter to quarter.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period ended June 30, 2023.

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
June 30, 2023
(In Millions)

				Past Due			
	Total	Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 16,858	P 13,790	P 2,088	P 255	P 103	P 622
Non-trade	1,695	642	122	181	58	692
Others	1,998	423	120	55	67	1,333
Total	20,551	P 14,855	P 2,330	P 491	P 228	P 2,647
Less allowance for impairment losses	1,192					
Net	P 19,359					

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS 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 periods indicated below.

KPI	As of June 30, 2023	As of December 31, 2022
Liquidity:		
Current Ratio	1.58	1.48
Quick Ratio	0.87	0.70
Solvency:		
Debt to Equity Ratio	1.04	1.13
Asset to Equity Ratio	2.04	2.13
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	19.35%	22.63%
Interest Rate Coverage Ratio	11.10	13.94
Return on Assets	10.20%	10.88%

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022
Operating Efficiency:		
Volume Growth	0.8%	9.00%
Revenue Growth	7.24%	17.26%
Operating Margin	12.45%	15.43%

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

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

* *Annualized for quarterly reporting*
** *Excluding preferred capital stock and related additional paid-in capital*