CR07683-2023

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
   Sep 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 A Bonds Due March 2027 (In Peso)	7,000,000,000.00
TOTAL DEBT as of 30Sep23 (IN MIL PESO - CONSO)	173,643

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

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2023	Dec 31, 2022
Current Assets	129,414	132,957
Total Assets	342,124	339,478
Current Liabilities	82,196	90,070
Total Liabilities	173,643	180,405
Retained Earnings/(Deficit)	94,932	89,226
Stockholders' Equity	168,481	159,073
Stockholders' Equity - Parent	109,120	103,286
Book Value per Share	18.47	17.48

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	92,069	89,418	276,656	261,540
Gross Expense	80,371	78,414	241,971	223,969
Non-Operating Income	979	389	5,460	975
Non-Operating Expense	1,343	1,447	3,953	3,754
Income/(Loss) Before Tax	11,334	9,946	36,192	34,792
Income Tax Expense	2,660	2,357	8,709	8,445
Net Income/(Loss) After Tax	8,674	7,589	27,483	26,347
Net Income Attributable to Parent Equity Holder	5,242	4,471	16,047	16,980

Earnings/(Loss) Per Share (Basic)	0.89	0.76	2.72	2.87
Earnings/(Loss) Per Share (Diluted)	0.89	0.76	2.72	2.87

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	3.61	3.52
Earnings/(Loss) Per Share (Diluted)	3.61	3.52

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

Filed on behalf by:

Name	Alexandra Trillana
Designation	Corporate Secretary and Compliance Officer

SEC COPY

COVER SHEET

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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)

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	A	V	E	N	U	E		C	-	5		R	O	A	D	,			
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	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

FORM TYPE

Month

Day

Annual

Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles

Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 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 September 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)	**P173,643**

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 (collectively, the "Group") as of and for the period ended September 30, 2023 (with comparative figures as of December 31, 2022 and for the period ended September 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 November 14, 2023

Annex “A”

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

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

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

	Note	**2023 Unaudited**	2022 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 9*	**P50,830**	P41,099
Trade and other receivables - net	*6, 8, 9*	**21,546**	22,110
Inventories		**45,123**	60,746
Current portion of biological assets - net		**3,709**	3,418
Prepaid expenses and other current assets	*6, 8, 9*	**8,206**	5,412
Assets held for sale		**-**	172
Total Current Assets		**129,414**	132,957
Noncurrent Assets			
Investments - net	*6, 8, 9*	**17,248**	17,143
Property, plant and equipment - net	*4*	**112,839**	106,611
Right-of-use assets - net		**4,721**	5,171
Investment property - net		**3,561**	3,638
Biological assets - net of current portion		**2,738**	2,671
Goodwill - net		**996**	996
Other intangible assets - net		**39,333**	39,365
Deferred tax assets		**2,450**	2,510
Other noncurrent assets - net	*6, 8, 9*	**28,824**	28,416
Total Noncurrent Assets		**212,710**	206,521
		P342,124	P339,478
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*6, 8, 9*	**P10,446**	P21,055
Trade payables and other current liabilities	*6, 8, 9*	**59,445**	62,536
Lease liabilities - current portion	*6, 8, 9*	**367**	432
Income and other taxes payable		**8,589**	5,474
Dividends payable	*5*	**396**	67
Current maturities of long-term debt – net of debt issue costs	*8, 9*	**2,953**	506
Total Current Liabilities		**82,196**	90,070
Noncurrent Liabilities			
Long-term debt – net of current maturities and debt issue costs	*8, 9*	**79,993**	77,733
Deferred tax liabilities		**23**	23
Lease liabilities – net of current portion	*6, 8, 9*	**4,801**	5,041
Other noncurrent liabilities	*6, 8, 9*	**6,630**	7,538
Total Noncurrent Liabilities		**91,447**	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	**(708)**	(836)
Retained earnings:		
Appropriated	**45,394**	31,366
Unappropriated	**49,538**	57,860
Treasury stock	**(30,182)**	(30,182)
	109,120	103,286
Non-controlling Interests	**59,361**	55,787
Total Equity	**168,481**	159,073
	P342,124	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 SEPTEMBER 30, 2023 AND 2022
(In Millions, Except Per Share Data)

				For the Quarter Ended	
	Note	2023 Unaudited	2022 Unaudited	2023 Unaudited	2022 Unaudited
SALES	*3*	**P276,656**	P261,540	**P92,069**	P89,418
COST OF SALES		**205,007**	189,079	**67,535**	66,280
GROSS PROFIT		**71,649**	72,461	**24,534**	23,138
SELLING AND ADMINISTRATIVE EXPENSES		**(36,964)**	(34,890)	**(12,836)**	(12,134)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(3,635)**	(2,403)	**(1,172)**	(770)
INTEREST INCOME		**2,231**	455	**777**	218
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		**6**	18	**4**	15
OTHER INCOME (CHARGES) - Net	*8, 9*	**2,905**	(849)	**27**	(521)
INCOME BEFORE INCOME TAX		**36,192**	34,792	**11,334**	9,946
INCOME TAX EXPENSE		**8,709**	8,445	**2,660**	2,357
NET INCOME		**P27,483**	P26,347	**P8,674**	P7,589
Attributable to:					
Equity holders of the Parent Company		**P16,048**	P16,980	**P5,242**	P4,471
Non-controlling interests		**11,435**	9,367	**3,432**	3,118
		P27,483	P26,347	**P8,674**	P7,589
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*7*	**P2.72**	P2.87	**P0.89**	P0.76

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 SEPTEMBER 30, 2023 AND 2022
(In Millions)

			For the Quarter Ended	
	2023 Unaudited	2022 Unaudited	**2023 Unaudited**	2022 Unaudited
NET INCOME	**P27,483**	P26,347	**P8,674**	P7,589
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurement gain (loss) on reserve for retirement plan	**(5)**	(3)	**1**	-
Income tax benefit	**1**	1	**-**	-
Net gain on financial assets at fair value through other comprehensive income	**21**	2	**16**	1
	17	-	**17**	1
Items that may be reclassified to profit or loss				
Gain on exchange differences on translation of foreign operations	**263**	2,761	**547**	1,309
	263	2,761	**547**	1,309
OTHER COMPREHENSIVE INCOME - Net of tax	**280**	2,761	**564**	1,310
TOTAL COMPREHENSIVE INCOME - Net of tax	**P27,763**	P29,108	**P9,238**	P8,899
Attributable to:				
Equity holders of the Parent Company	**P16,176**	P18,205	**P5,536**	P5,045
Non-controlling interests	**11,587**	10,903	**3,702**	3,854
	P27,763	P29,108	**P9,238**	P8,899

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 SEPTEMBER 30, 2023 AND 2022
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Equity Reserves										
		Capital Stock		Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	Common	Preferred							Appro-priated	Unappro-priated	Common	Preferred	Total		
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)	(3)	(4)
Net gain on financial assets at fair value through other comprehensive income		-	-	-	-	-	21	-	-	-	-	-	-	21	-	21
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	108	-	-	-	-	-	108	155	263
Other comprehensive income (loss)		-	-	-	-	(1)	21	108	-	-	-	-	-	128	152	280
Net income		-	-	-	-	-	-	-	-	-	16,048	-	-	16,048	11,435	27,483
Total comprehensive income (loss)		-	-	-	-	(1)	21	108	-	-	16,048	-	-	16,176	11,587	27,763
Share issuance costs		-	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Appropriation – net		-	-	-	-	-	-	-	-	14,028	(14,028)	-	-	-	-	-
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(10,341)	-	-	(10,341)	(8,013)	(18,354)
As at September 30, 2023 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,881)	P33	P1,217	(P77)	P45,394	P49,538	(P182)	(P30,000)	P109,120	P59,361	P168,481

Forward

CERTIFIED CORRECT:

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

		Equity Attributable to Equity Holders of the Parent Company														
						Equity Reserves										
		Capital Stock		Additional Paid-in	Equity Adjustments from Common	Reserve for Retirement	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Control Transactions	Reserve	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
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		-	-	-	-	-	-	2	- -	-	-	-	-	2	-	2
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	1,224	-	-	-	-	-	1,224	1,537	2,761
Other comprehensive income (loss)		-	-	-	-	(1)	-	1,226	-	-	-	-	-	1,225	1,536	2,761
Net income		-	-	-	-	-	-	-	-	-	16,980	-	-	16,980	9,367	26,347
Total comprehensive income (loss)		-	-	-	-	(1)	-	1,226	-	-	16,980	-	-	18,205	10,903	29,108
Appropriations - net		-	-	-	-	-	-	-	-	(3,582)	3,582	-	-	-	-	-
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(8,627)	-	-	(8,627)	(6,657)	(15,284)
As at September 30, 2022 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,132)	P12	P1,472	(P77)	P27,461	P60,383	(P182)	(P30,000)	P103,015	P56,271	P159,286

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 SEPTEMBER 30, 2023 AND 2022
(In Millions)

	Note	**2023 Unaudited**	2022 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P36,192**	P34,792
Adjustments for:			
Depreciation and amortization	*4*	**11,740**	9,697
Interest expense and other financing charges		**3,635**	2,403
Retirement costs		**1,033**	975
Provision for impairment losses on receivables and write-down of inventories		**42**	616
Gain on sale of investments and property and equipment		**(5)**	(19)
Gain on fair valuation of agricultural produce		**(21)**	(10)
Dividend income		**(104)**	(99)
Interest income		**(2,231)**	(455)
Other charges - net on derivative transactions		**56**	486
Operating income before working capital changes		**50,337**	48,386
Decrease (increase) in:			
Trade and other receivables		**623**	4,466
Inventories		**15,419**	(12,455)
Current portion of biological assets		**(290)**	(584)
Prepaid expenses and other current assets		**(2,828)**	(220)
Increase in:			
Trade payables and other current liabilities		**612**	557
Other noncurrent liabilities		**-**	4,622
Cash generated from operations		**63,873**	44,772
Income taxes paid		**(8,176)**	(8,632)
Interest paid		**(4,169)**	(3,003)
Contributions paid		**(621)**	(226)
Interest received		**1,467**	435
Net cash flows provided by operating activities		**52,374**	33,346
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and investment property	*4*	**(9,932)**	(16,017)
Increase in biological assets, intangible assets and other noncurrent assets		**(9,400)**	(5,425)
Proceeds from sale of investments and property and equipment		**125**	29
Dividends received		**105**	99
Interest received		**655**	-
Net cash flows used in investing activities		**(18,447)**	(21,314)

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	**P176,851**	P31,409
Long-term borrowings	**4,963**	6,948
Payments of:		
Short-term borrowings	**(187,460)**	(24,768)
Long-term borrowings	**(345)**	(7,099)
Lease liabilities	**(398)**	(477)
Cash dividends paid	**(18,025)**	(15,067)
Share issuance costs	**(1)**	-
Net cash flows used in financing activities	**(24,415)**	(9,054)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**219**	1,453
NET INCREASE IN CASH AND CASH EQUIVALENTS	**9,731**	4,431
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**41,099**	41,581
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P50,830**	P46,012

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 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 November 8, 2023.

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

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

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

Adoption of Amendments to Standards

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

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

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

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

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

New and Amendments to Standards Not Yet Adopted

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

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

- *International Tax Reform - Pillar Two Model Rules* (Amendments to PAS 12). The amendments include a temporary, mandatory exemption from accounting for deferred taxes resulting from the introduction of the global minimum taxation and targeted disclosures in the notes for affected entities to enable users of financial statements to understand the extent to which an entity will be affected by the minimum tax, particularly before the legislation comes into force.

The accounting exemption is to be applied immediately after publication of the amendment. The amendments relating to the notes are applicable for annual reporting periods beginning on or after January 1, 2023. Disclosures in the notes for interim reporting periods ending on or before December 31, 2023 are not required.

- 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.

- Supplier Finance Arrangements (Amendments to PAS 7, Statement of Cash Flows, and PFRS 7, Financial Instruments: Disclosures). The amendments introduce new disclosure objectives to provide information about the supplier finance arrangements of an entity that would enable users to assess the effects of these arrangements on the liabilities and cash flows, and the exposure to liquidity risk.

Under the amendments, entities also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in PFRS 7 on factors an entity might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

- 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 applies to all insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  - PFRS 17 aims to increase transparency and to reduce diversity in the accounting for insurance contracts. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and simplified approach (the premium allocation approach) mainly for short-duration contracts.

  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).

  PFRS 17 is effective for annual reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

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 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	**P129,411**	P128,019	**P108,332**	P98,991	**P38,913**	P34,530	**P276,656**	P261,540	**P-**	P-	**P276,656**	P261,540
Inter-segment sales	**1**	-	**1**	1	**2**	4	**4**	5	**(4)**	(5)	**-**	-
Total sales	**P129,412**	P128,019	**P108,333**	P98,992	**P38,915**	P34,534	**P276,660**	P261,545	**(P4)**	(P5)	**P276,656**	P261,540
Results												
Segment results*	**P5,535**	P10,763	**P24,116**	P22,228	**P5,034**	P4,580	**P34,685**	P37,571	**P-**	P-	**P34,685**	P37,571

**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	**P129,396**	P128,000	**P108,332**	P98,991	**P38,913**	P34,530	**P276,641**	P261,521
Sales recognized over time	**15**	19	**-**	-	**-**	-	**15**	19
Total external sales	**P129,411**	P128,019	**P108,332**	P98,991	**P38,913**	P34,530	**P276,656**	P261,540

4. Property, Plant and Equipment

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

September 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	325	389	200	17	9,450	10,382
Disposals	(6)	(110)	(680)	(49)	(7)	-	(852)
Reclassifications	175	3,911	6,612	721	420	(11,297)	542
Currency translation adjustments	(44)	(49)	(194)	(1)	-	1	(287)
September 30, 2023 (Unaudited)	**16,719**	**43,936**	**99,876**	**7,040**	**2,219**	**31,541**	**201,331**
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	165	877	2,788	498	74	-	4,402
Disposals	(6)	(84)	(600)	(46)	(7)	-	(743)
Reclassifications	7	22	68	(1)	159	-	255
Currency translation adjustments	-	(12)	(110)	(1)	-	-	(123)
September 30, 2023 (Unaudited)	**1,930**	**13,161**	**54,750**	**3,999**	**738**	**-**	**74,578**
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
Disposals	-	(25)	(77)	(1)	-	-	(103)
Currency translation adjustments	-	(46)	(85)	-	-	-	(131)
September 30, 2023 (Unaudited)	**-**	**3,344**	**10,497**	**72**	**1**	**-**	**13,914**
Carrying Amount							
December 31, 2022 (Audited)	P14,829	P24,086	P30,486	P2,547	P1,276	P33,387	P106,611
September 30, 2023 (Unaudited)	**P14,789**	**P27,431**	**P34,629**	**P2,969**	**P1,480**	**P31,541**	**P112,839**

September 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	4	27	85	50	-	15,846	16,012
Disposals	(1)	(12)	(417)	(117)	(3)	-	(550)
Reclassifications	233	3,257	4,218	1,695	167	(8,241)	1,329
Currency translation adjustments	25	623	1,353	54	-	8	2,063
September 30, 2022 (Unaudited)	**16,561**	**38,575**	**93,171**	**5,861**	**1,740**	**33,783**	**189,691**
Accumulated Depreciation and Amortization							
January 1, 2022 (Audited)	1,550	11,177	49,513	3,161	420	-	65,821
Depreciation and amortization	162	740	2,524	356	65	-	3,847
Disposals	(1)	(4)	(415)	(114)	-	-	(534)
Reclassifications	(2)	67	24	12	2	-	103
Currency translation adjustments	6	291	663	43	-	-	1,003
September 30, 2022 (Unaudited)	**1,715**	**12,271**	**52,309**	**3,458**	**487**	**-**	**70,240**
Accumulated Impairment Losses							
January 1, 2022 (Audited)	38	3,392	10,427	73	1	-	13,931
Disposals	-	(4)	-	(2)	-	-	(6)
Currency translation adjustments	-	139	627	6	-	-	772
September 30, 2022 (Unaudited)	**38**	**3,527**	**11,054**	**77**	**1**	**-**	**14,697**
Carrying Amount							
September 30 2022 (Unaudited)	**P14,808**	**P22,777**	**P29,808**	**P2,326**	**P1,252**	**P33,783**	**P104,754**

Depreciation and amortization recognized in the consolidated statements of income amounted to P4,402 and P3,847 for the periods ended September 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**
	August 2, 2023	**August 16, 2023**	**September 1, 2023**	**0.95**

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
	August 3, 2022	August 18, 2022	September 2, 2022	0.66

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 September 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	**September 30, 2023**	**P130**	**P1,022**	**P5,806**	**P1,173**	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	**September 30, 2023**	**818**	**29,538**	**1,768**	**20,039**	On demand;	Unsecured;
	December 31, 2022	1,162	39,670	1,523	21,806	non- interest bearing	no impairment
Joint Venture	**September 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	**September 30, 2023**	-	-	-	**28**	On demand;	Unsecured;
	December 31, 2022	-	-	-	**-**	non- interest bearing	no impairment
Associate of Intermediate Parent Company	**September 30, 2023**	**500**	**-**	**3,505**	-	Less than 1 to 7 years	Unsecured;
	December 31, 2022	36	-	11,528	-	interest bearing	no impairment
Shareholders in Subsidiaries	**September 30, 2023**	**149**	**3,535**	**213**	**57**	On demand;	Unsecured;
	December 31, 2022	118	5,152	121	54	non-interest bearing	no impairment
Total	**September 30, 2023**	**P1,618**	**P34,095**	**P11,292**	**P21,299**		
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:

	September 30	
	2023	2022
Net income attributable to common shareholders of the Parent Company (a)	**P16,048**	P16,980
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)	**P2.72**	P2.87

As at September 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. 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:

September 30, 2023	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Fixed Rate					
Philippine peso-denominated	**P2,844**	**P32,411**	**P 31,058**	**P9,255**	**P75,568**
Interest rate	**3.284%-6.00%**	**3.2840% -5.050%**	**3.2840% -6.8412%**	**3.548%**	
Floating Rate					
Philippine peso-denominated	**120**	**238**	**238**	**7,315**	**7,911**
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**	
	P2,964	**P32,649**	**P31,296**	**P16,570**	**P83,479**

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 P59 and P80 for the period ended September 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:

	September 30, 2023		December 31, 2022	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$263**	**P14,889**	US$256	P14,301
Trade and other receivables	**31**	**1,763**	30	1,677
Noncurrent receivables	**-**	**8**	-	8
	294	**16,660**	286	15,986
Liabilities				
Trade payables and other current liabilities	**107**	**6,043**	157	8,777
Lease liabilities	**1**	**44**	-	-
Other noncurrent liabilities	**-**	**12**	-	-
	108	**6,099**	157	8,777
Net Foreign Currency-denominated Monetary Assets	**US$186**	**P10,561**	US$129	P7,209

The Group reported net gain (loss) on foreign exchange amounting to P122 and (P117) for the periods ended September 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
September 30, 2023	**P56.575**
December 31, 2022	55.755
September 30, 2022	58.625
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**	
September 30, 2023	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P10)**	**(P261)**	**P10**	**P261**
Trade and other receivables	**(7)**	**(29)**	**7**	**29**
	(17)	**(290)**	**17**	**290**
Trade payables and other current liabilities	**23**	**101**	**(23)**	**(101)**
Lease liabilities	**-**	**1**	**-**	**(1)**
	23	**102**	**(23)**	**(102)**
	P6	**(P188)**	**(P6)**	**P188**

	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)
	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.

September 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	**P50,830**	**P50,830**	**P50,830**	**P -**	**P -**	**P -**
Trade and other receivables - net	**21,524**	**21,524**	**21,524**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**22**	**22**	**22**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Investments" account)	**5,748**	**5,748**	**-**	**-**	**-**	**5,748**
Financial assets at amortized cost (included under "Investments" account)	**11,500**	**16,117**	**775**	**841**	**2,520**	**11,981**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**164**	**164**	**7**	**17**	**29**	**111**
Financial Liabilities						
Loans payable	**10,446**	**10,420**	**10,420**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding derivative liabilities)	**59,283**	**59,283**	**59,283**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**162**	**162**	**162**	**-**	**-**	**-**
Long-term debt (including current maturities)	**82,946**	**97,360**	**7,052**	**25,650**	**47,196**	**17,462**
Lease liabilities (including current portion)	**5,168**	**11,623**	**695**	**612**	**1,777**	**8,539**
Other noncurrent liabilities	**2,890**	**2,890**	**-**	**2,878**	**-**	**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

Credit Risk

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

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

Trade and Other Receivables

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

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

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

Investment in Debt Instruments

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

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

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

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

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

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

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

	September 30 2023	December 31 2022
Cash and cash equivalents (excluding cash on hand)	**P49,759**	P40,159
Trade and other receivables - net	**21,524**	22,110
Derivative assets	**22**	100
Financial assets at amortized cost	**11,500**	11,500
Noncurrent receivables and deposits - net	**164**	156
	P82,969	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.

September 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)	**P49,759**	**P -**	**P -**	**P -**	**P49,759**
Trade and other receivables - net	**21,524**	**-**	**1,226**	**-**	**22,750**
Derivative assets	**-**	**-**	**-**	**22**	**22**
Financial assets at amortized cost	**11,500**	**-**	**-**	**-**	**11,500**
Noncurrent receivables and deposits - net	**-**	**164**		**-**	**164**
Total	**P82,783**	**P164**	**P1,226**	**P22**	**P 84,195**

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:

September 30, 2023	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P15,495**	**P823**	**P373**	**P16,691**
Past due:				
1-30 days	**2,555**	**116**	**100**	**2,771**
31-60 days	**217**	**29**	**51**	**297**
61-90 days	**76**	**41**	**115**	**232**
Over 90 days	**669**	**679**	**1,433**	**2,781**
	P19,012	**P1,688**	**P2,072**	**P22,772**

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. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

	September 30, 2023		December 31, 2022	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P50,830**	**P50,830**	P41,099	P41,099
Trade and other receivables - net	**21,524**	**21,524**	22,110	22,110
Derivative assets (included under "Prepaid expenses and other current assets" account)	**22**	**22**	100	100
Financial assets at FVOCI (included under "Investments" account)	**5,748**	**5,748**	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)	**164**	**164**	156	156
Financial Liabilities				
Loans payable	**10,446**	**10,446**	21,055	21,055
Trade payables and other current liabilities (excluding derivative liabilities)	**59,283**	**59,283**	62,332	62,332
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**162**	**162**	204	204
Long-term debt (including current maturities)	**82,946**	**79,874**	78,239	74,426
Lease liabilities (including current portion)	**5,168**	**5,168**	5,473	5,473
Other noncurrent liabilities	**2,890**	**2,890**	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 September 30, 2023 and December 31, 2022, discount rates used ranges from 5.60% to 6.39% 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 the consolidated statements of income. Details are as follows:

Freestanding Derivatives

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

As at September 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 September 30, June 30 and December 31, 2022, the total outstanding notional amount of such embedded currency forwards amounted to US$111, US$85 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 P140, P69 and P104 as at September 30, June 30 and December 31, 2022, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P108) and (P894), and P49 and (P469) for the periods ended September 30, 2023 and 2022, and June 30, 2023 and 2022, respectively.

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

	September 30, 2023	December 31, 2022
Balance at beginning of year	**(P104)**	(P181)
Net change in fair value of derivatives	**(108)**	(503)
	(212)	(684)
Less fair value of settled instruments	**72**	580
Balance at end of year	**(P140)**	(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:

	September 30, 2023			December 31, 2022		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P-**	**P22**	**P22**	P -	P100	P100
Financial assets at FVOCI	**5,748**	**-**	**5,748**	5,643	-	5,643
Financial assets at amortized cost	**11,500**	**-**	**11,500**	11,500	-	11,500
Financial Liabilities						
Derivative liabilities	**-**	**162**	**162**	-	204	204

The Group has no financial instruments valued based on Level 3 as at September 30, 2023 and December 31, 2022. For the period ended September 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 P81,109 and P67,751 as at September 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 November 8, 2023, the BOD of the Parent Company declared regular and special cash dividends to all common shareholders of record as of November 22, 2023 amounting to P0.40 and P0.55 per common share, respectively. Cash dividends for common shares is payable on December 7, 2023.

Annex “B”

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 (collectively referred to as the “Group”) as at and for the period ended September 30, 2023 (with comparative figures as at December 31, 2022 and for the period ended September 30, 2022). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at September 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

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022

(in millions)	SEPTEMBER 2023	SEPTEMBER 2022	HORIZONTAL ANALYSIS INCREASE (DECREASE) AMOUNT	%	VERTICAL ANALYSIS 2023	VERTICAL ANALYSIS 2022
SALES	276,656	261,540	15,116	6%	100%	100%
COST OF SALES	205,007	189,079	15,928	8%	74%	72%
GROSS PROFIT	71,649	72,461	(812)	(1%)	26%	28%
SELLING AND ADMINISTRATIVE EXPENSES	(36,964)	(34,890)	(2,074)	6%	(13%)	(13%)
OPERATING RESULTS	34,685	37,571	(2,886)	(8%)	13%	14%
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(3,635)	(2,403)	(1,232)	51%	(1%)	(1%)
INTEREST INCOME	2,231	455	1,776	390%	1%	0%
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	6	18	(12)	(67%)	0%	0%
OTHER INCOME (CHARGES) - NET	2,905	(849)	3,754	(442%)	1%	(0%)
INCOME BEFORE INCOME TAX	36,192	34,792	1,400	4%	13%	13%
INCOME TAX EXPENSE	8,709	8,445	264	3%	3%	3%
NET INCOME	27,483	26,347	1,136	4%	10%	10%
Attributable to:						
Equity holders of the Parent Company	16,048	16,980	(932)	(5%)	6%	6%
Non-controlling interests	11,435	9,367	2,068	22%	4%	4%
	27,483	26,347	1,136	4%	10%	10%

For the first three quarters of the year, the Group remains resilient as it continues to grow its topline, amid a persistently challenging macro-economic environment, marked by high costs impacting its businesses and its consumers.

Consolidated sales for the nine months ended September 30, 2023 amounted to P276,656 million, 6% higher compared to the same period in 2022, while the consolidated net income amounted to P27,483 million, 4% higher compared to the same period in 2022.

Sales

Consolidated sales increased by 6%, from P261,540 million for the nine months ended September 30, 2022 to P276,656 million for the same period in 2023, mainly due to higher sales volumes and better selling prices. Sales in the Beer and NAB Segment increased by 9%, from P98,991 million in 2022 to P108,332 million in 2023, sales in the Spirits Segment increased by 13%, from P34,530 million in 2022 to P38,913 million in 2023, and sales in the Food Segment increased by 1%, from P128,019 million in 2022 to P129,411 million in 2023.

Cost of Sales

The consolidated cost of sales increased by 8%, from P189,079 million for the nine months ended September 30, 2022 to P205,007 million for the same period in 2023. Cost of sales in the Beer and NAB Segment increased by 11%, from P61,990 million in 2022 to P68,550 million in 2023, cost of sales in the Spirits Segment increased by 14%, from P25,769 million in 2022 to P29,451 million in 2023, and cost of sales in the Food Segment increased by 6%, from P101,320 million in 2022 to P107,006 million in 2023.

The increase was a result of stronger sales volumes, higher commodity prices, direct costs of new facilities, and an increase in excise tax rates for the Beer and NAB and Spirits Segments effective January 1, 2023.

The following table summarizes the cost of sales for the nine months ended September 30, 2023:

(in millions)	Beer and NAB	Spirits	Food	Total
Inventories	P12,254	P11,245	P92,389	**P115,888**
Excise tax	49,936	16,760	-	**66,696**
Labor	1,472	300	1,834	**3,606**
Others	4,888	1,146	12,783	**18,817**
	P68,550	**P29,451**	**P107,006**	**P205,007**

Gross profit
Consolidated gross profit declined by 1%, from P72,461 million for the nine months ended September 30, 2022 to P71,649 million for the same period in 2023 on account of higher direct material costs and increase in excise taxes despite the growth in sales volumes and increase in selling prices.

Selling and Administrative Expenses
Consolidated selling and administrative expenses increased by 6%, from P34,890 million for the nine months ended September 30, 2022 to P36,964 million for the same period in 2023. Selling and administrative expenses in the Beer and NAB Segment increased by 6%, from P14,773 million in 2022 to P15,666 million in 2023, selling and administrative expenses in the Spirits Segment increased by 6%, from P4,181 million in 2022 to P4,428 million in 2023, and selling and administrative expenses in the Food Segment increased by 6%, from P15,936 million in 2022 to P16,870 million in 2023 (includes other administrative expenses of the Parent Company amounting to P69 million). The increases were primarily due to higher depreciation and manpower-related expenses in connection with newly acquired company trucks and newly constructed facilities, higher distribution costs, and amortization of deferred containers in line with sales volume growth.

Interest Expense and Other Financing Charges
Consolidated interest expense and other financing charges increased by 51%, from P2,403 million for the nine months ended September 30, 2022 to P3,635 million for the same period in 2023 as a result of a higher debt level compared to the same period in 2022, higher interest rates on floating rate obligations, and interest related to acquired properties on account.

Interest Income
Consolidated interest income increased by 390%, from P455 million for the nine months ended September 30, 2022 to P2,231 million for the same period in 2023 primarily due to higher average level of money market placements with longer maturity period and higher interest rates, and investments in debt instruments.

Gain on Sale of Investments and Property and Equipment
The Group recognized a gain of P6 million from the disposal and sale of fixed assets for the first nine months of 2023.

Other Income (Charges) - Net
The Group recognized consolidated other income – net amounting to P2,905 million for the nine months ended September 30, 2023, compared to consolidated other charges – net of P849 million for the same period in 2022. This was primarily due to higher foreign exchange gains and lower marked to market losses based on favorable exchange rate movements, the Spirits Segment's recognized income from the assignment of product rights, the Beer Segment's Tax Credit Certificates issued by the Bureau of Internal Revenue (BIR) pursuant to tax refund cases, gain on proceeds of insurance claims, and the Food Segment's loss on sale of its trademark.

Net Income before Income Tax
As a result of the foregoing, consolidated net income before income tax increased by 4%, from P34,792 million for the nine months ended September 30, 2022 to P36,192 million for the same period in 2023.

Income Tax Expense
The income tax expense increased by 3%, from P8,445 million for the nine months ended September 30, 2022 to P8,709 million for the same period in 2023 due to the higher taxable income.

Net Income
As a result of the aforementioned, SMFB's consolidated net income increased by 4%, from P26,347 million for the nine months ended September 30, 2022 to P27,483 million for the same period in 2023. Net income of the Beer and NAB Segment increased by 20%, from P16,161 million in 2022 to P19,431 million in 2023, while net income of the Spirits Segment increased by 62%, from P3,385 million in 2022 to P5,491 million in 2023. The Food Segment recognized net income amounting to P2,561 million (inclusive of other administrative expenses of the Parent Company) in 2023 compared to the net income of P6,801 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 5%, from P16,980 million for the nine months ended September 30, 2022 to P16,048 million for the same period in 2023. Net income after tax and minority interest of the Beer and NAB Segment increased by 21%, from P8,037 million in 2022 to P9,729 million in 2023, net income after tax and minority interest of the Spirits Segment increased by 62%, from P2,565 million in 2022 to P4,161 million in 2023, while net income after tax and minority interest of the Food Segment decreased from P6,378 million in 2022 to P2,158 million (inclusive of other administrative expenses of the Parent Company) in 2023.

Business Highlights for the period ended September 30, 2023

Beer and NAB
San Miguel Brewery Inc.'s domestic operations continued its strong performance in the first nine months of 2023 with revenue of P96,339 million, 9% higher than in the same period last year as a result of the higher sales volume and the impact of a price increase implemented on March 1, 2023. The favorable performance was boosted by relevant thematic campaigns, on-ground activations, sustained market reopening and economic recovery despite the impact of higher inflation, cost of living challenge and weather disturbances.

Income from operations was 5% higher than in the first nine months of 2022 on the back of strong 2023 performance with the further reopening of the economy. This resulted to a 16% increase in net income, from P14,534 million in 2022 to P16,886 million this year.

San Miguel Brewing International Limited (SMBIL) registered US$217 million in consolidated revenue for the first nine months of 2023, 9% higher than that of the comparable period in 2022 on account of higher sales volume.

Volumes of SMBIL's global San Miguel brands, including Red Horse, across all operating countries and Export Markets climbed 19% to cushion the impact of lower volumes of local beer brands. Thailand operations' volumes grew from last year driven by the ongoing on-premise expansion programs and wholesaler initiatives, and the continued recovery of tourism. With all Corona Virus Disease-2019 (COVID-19) restrictions lifted and the market situation improving, total South China operations posted a growth versus 2022, supported by the expanded network of dealers and wholesalers. Similarly, combined volumes of the global San Miguel brands of the Hong Kong operations, Vietnam operations and Indonesia operations was 8% higher than the previous year due to the implementation of outlet penetration programs and the impact of the lifting of COVID-19 related restrictions. This was, however, offset by the shortfall in each of these markets' local brands. For the Indonesia operations, the impact was more significant given that Anker beer brand contributes over 80% of its total sales. SMBIL's Exports business, on the other hand, continued to post a double-digit growth from last year, attributable to higher shipments to United Arab Emirates, Singapore, United States of America and selected markets in Africa.

SMBIL's consolidated operating income for the period ended September 30, 2023, was 38% higher at US$49 million compared to the same period in 2022, mainly driven by higher volumes, higher margins and controlled fixed costs.

Spirits
Ginebra San Miguel, Inc.'s revenues for the first nine months of 2023 of P38,913 million was higher than in the same period of 2022 by 13% mainly driven by a 9% increase in average selling prices and 3% volume growth. Meanwhile, gross profit increased by 8% from the same period in 2022 as major input cost increases, including the excise tax increase in January, were fully covered by the price adjustment effected on the company's products in February.

Interest expense and other financing charges increased by P30 million mainly from the accrued interest expense on defined benefit obligation.

Other income has significantly increased mainly due to the income recognized from the assignment of product rights.

The Spirits Segment registered consolidated net income of P5,491 million in the first nine months of 2023 which is an increase of 62% versus the comparable period in 2022.

Food

The Food Segment posted revenues of P129,411 million for the first nine months of 2023, modestly increasing by 1% from the same period in 2022. Sustained favorable selling prices compensated for the decline in sales volumes from subdued consumer spending as a result of high inflation. Limited broiler supply in the first few months of the year and the lingering impact of the African Swine Fever (ASF) also dampened the Food Segment's volume target.

The Protein business, which is comprised of the poultry and fresh meats businesses, registered revenues of P47,681 million, 7% lower than the same period in 2022. A surge in industry inventory of imported frozen chicken pushed chicken selling prices down in June and July, offsetting gains from the improvement of grown broiler supply beginning in the second quarter of the year, thus affecting the poultry business' total year-to-date revenue. Meanwhile, revenues of the fresh meats business declined versus last year, following downsizing of hog operations amidst the resurgence of ASF in a number of provinces.

The Animal Nutrition and Health business recorded revenues of P33,991 million, 6% higher compared to the first nine months of 2022, driven by higher selling prices. The impact of industry depopulation caused by ASF, however, negatively affected sales volumes.

The Prepared and Packaged Food business, consisting of processed meats, ready-to-eat, seafood and plant-based food, dairy, spreads, and coffee businesses, delivered revenues of P35,480 million, up by 5% 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 butter, refrigerated margarine, cheese, salad aids and all-purpose cream. Volume growth momentum of San Mig Coffee Sugarfree and Original variants were likewise sustained.

The Food Segment's cost of sales totaling P107,006 million was 6% higher compared to same period in 2022 mainly due to the elevated costs of some of the major raw materials, aggravated by the impact of the Philippine peso depreciation. Operating costs of new company-owned facilities, as well as increased fuel and power costs, also contributed to higher production costs.

As increases in costs of major raw materials and other production inputs outpaced revenue growth, the Food Segment's gross profit dipped to P22,405 million, 16% lower compared to same period last year's level.

Selling and administrative expenses were up by 6% to P16,814 million mainly due to an increase in manpower requirements to support expansion and the implementation of wage board increases.

Given the aforementioned challenges, the Food Segment's income from operations declined to P5,584 million in the first nine months of 2023.

Nine months ended September 30, 2022 compared to nine months ended September 30, 2021

(in millions)	SEPTEMBER 2022	SEPTEMBER 2021	HORIZONTAL ANALYSIS INCREASE (DECREASE) AMOUNT	HORIZONTAL ANALYSIS INCREASE (DECREASE) %	VERTICAL ANALYSIS 2022	VERTICAL ANALYSIS 2021
SALES	261,540	221,746	39,794	18%	100%	100%
COST OF SALES	189,079	156,431	32,648	21%	72%	71%
GROSS PROFIT	72,461	65,315	7,146	11%	28%	29%
SELLING AND ADMINISTRATIVE EXPENSES	(34,890)	(32,509)	2,381	7%	14%	14%
OPERATING RESULTS	37,571	32,806	4,765	15%	14%	15%
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(2,403)	(2,477)	(74)	(3%)	(1%)	(1%)
INTEREST INCOME	455	369	86	24%	0%	0%
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	18	201	(183)	(91%)	0%	0%
OTHER INCOME (CHARGES) - NET	(849)	217	(1,066)	(492%)	0%	0%
INCOME BEFORE INCOME TAX	34,792	31,116	3,676	12%	13%	14%
INCOME TAX EXPENSE	8,445	6,932	1,513	22%	3%	3%
NET INCOME	26,347	24,184	2,163	9%	10%	11%
Attributable to:						
Equity holders of the Parent Company	16,980	15,988	992	6%	6%	7%
Non-controlling interests	9,367	8,196	1,171	14%	4%	4%
	26,347	24,184	2,163	9%	10%	11%

The Group continued to recover from the COVID-19 pandemic and posted its highest level of revenue in a single quarter since its consolidation in 2018.

Consolidated sales for the nine months ended September 30, 2022 amounted to P261,540 million, 18% higher compared to the same period in 2021, while the consolidated net income amounted to P26,347 million, 9% higher than in the same period in 2021. This is attributable to the strength of the Group's brands across all business segments.

Sales

Consolidated sales increased by 18%, from P221,746 million for the nine months ended September 30, 2021 to P261,540 million for the same period in 2022, mainly due to higher sales volumes and better selling prices. Sales in the Beer and NAB Segment increased by 21%, from P82,081 million in 2021 to P98,991 million in 2022, sales in the Spirits Segment increased by 12%, from P30,716 million in 2021 to P34,530 million in 2022, and sales in the Food Segment increased by 18%, from P108,949 million in 2021 to P128,019 million in 2022.

Cost of Sales

The consolidated cost of sales increased by 21%, from P156,431 million for the nine months ended September 30, 2021 to P189,079 million for the same period in 2022. Cost of sales in the Beer and NAB Segment increased by 21%, from P51,188 million in 2021 to P61,990 million in 2022, cost of sales in the Spirits Segment increased by 13%, from P22,724 million in 2021 to P25,769 million in 2022, and cost of sales in the Food Segment increased by 23%, from P82,519 million in 2021 to P101,320 million in 2022.

The increase was primarily relative to stronger sales volumes across the Group, higher cost of raw materials, and higher excise tax rates for the Beer and NAB and Spirits Segments.

The following table summarizes the cost of sales for the nine months ended September 30, 2022:

(in millions)	**Beer and NAB**	**Spirits**	**Food**	**Total**
Inventories	P10,250	P10,094	P88,023	P108,367
Excise tax	45,759	14,561	-	60,320
Labor	1,331	265	1,509	3,105
Others	4,650	849	11,788	17,287
	P61,990	**P25,769**	**P101,320**	**P189,079**

Gross profit

Consolidated gross profit increased by 11%, from P65,315 million for the nine months ended September 30, 2021 to P72,461 million for the same period in 2022. The increase was primarily driven by the increase in sales volume across the Group.

Selling and Administrative Expenses
Consolidated selling and administrative expenses increased by 7%, from P32,509 million for the nine months ended September 30, 2021 to P34,890 million for the same period in 2022. Selling and administrative expenses in the Beer and NAB Segment increased by 16%, from P12,710 million in 2021 to P14,773 million in 2022, while selling and administrative expenses in the Spirits Segment increased by 7%, from P3,914 million in 2021 to P4,181 million in 2022. On the other hand, selling and administrative expenses in the Food Segment amounted to about the same level, at P15,885 million in 2021 to P15,936 million in 2022 (includes other administrative expenses of the Parent Company amounting to P69 million). The increases were primarily due to higher advertising and promotions and selling and distribution expenses in line with efforts to grow volumes.

Interest Expense and Other Financing Charges
Consolidated interest expense and other financing charges decreased by 3%, from P2,477 million for the nine months ended September 30, 2021 to P2,403 million for the same period in 2022 as a result of settlement and the refinancing of long-term debt at more attractive rates.

Interest Income
Consolidated interest income increased by 23%, from P369 million for the nine months ended September 30, 2021 to P455 million for the same period in 2022 primarily due to higher average level of money market placements with longer maturity period and higher interest rates.

Gain on Sale of Investments and Property and Equipment
The Group recognized a gain of P18 million from the disposal and sale of fixed assets for the first nine months of 2022.

Other Income (Charges) - Net
The Group recognized consolidated other charges – net amounting to P849 million for the nine months ended September 30, 2022, compared to consolidated other income – net of P217 million for the same period in 2021. This was primarily due to higher marked to market losses on foreign purchase of materials due to the depreciation of the peso against U.S. dollar and the Food Segment's higher casualty losses and costs of closed facilities for 2022 while higher income was recognized in 2021 due to the Beer Segment's Tax Credit Certificates issued by the BIR pursuant to the tax refund cases and insurance claims, and the Food Segment's sale of its trademark.

Net Income before Income Tax
As a result of the foregoing, consolidated net income before income tax increased by 12%, from P31,116 million for the nine months ended September 30, 2021 to P34,792 million for the same period in 2022.

Income Tax Expense
The income tax expense increased by 22%, from P6,932 million for the nine months ended September 30, 2021 to P8,445 million for the same period in 2022 due to the higher taxable income.

Net Income
As a result of the aforementioned, SMFB's consolidated net income increased by 9%, from P24,184 million for the nine months ended September 30, 2021 to P26,347 million for the same period in 2022. Net income of the Beer and NAB Segment increased by 15%, from P14,049 million in 2021 to P16,161 million in 2022, while net income of the Spirits Segment increased by 7%, from P3,170 million in 2021 to P3,385 million in 2022. The Food Segment recognized net income amounting to P6,801 million (inclusive of other administrative expenses of the Parent Company) in 2022 compared to the net income of P6,965 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 P15,988 million for the nine months ended September 30, 2021 to P16,980 million for the same period in 2022. Net income after tax and minority interest of the Beer and NAB Segment increased by 14%, from P7,025 million in 2021 to P8,037 million in 2022, net income after tax and minority interest of the Spirits Segment increased by 7%, from P2,402 million in 2021 to P2,565 million in 2022, while net income after tax and minority interest of the Food Segment decreased from P6,561 million in 2021 to P6,378 million (inclusive of other administrative expenses of the Parent Company) in 2022.

Business Highlights for the period ended September 30, 2022

Beer and NAB

The Beer and NAB Segment sustained its robust performance recording a 12% increase in sales volume bringing consolidated revenue to P98,992 million, P16,910 million higher than in the first three quarters of 2021. The increase in sales volume coupled with the increase in selling prices for both domestic and international operations enabled the 21% growth in revenue. The domestic operations contributed P88,375 million, while the international operations contributed US$198 million.

Cost of sales increased by 21% to P61,991 million with the higher sales volume and the January 2022 increase in excise taxes for fermented liquors in the Philippines. The effect of high fuel and commodity prices also translated into higher production costs. The domestic operations accounted for P55,969 million while the international operations accounted for US$113 million.

Selling and administrative expenses increased by 16% or by P2,064 million largely due to higher personnel expenses, freight, trucking and handling costs, advertising and promotions expenses, and depreciation and amortization. The domestic operations accounted for P12,096 million of total selling and administrative expenses, while international operations accounted for US$50 million.

Consequently, income from operations grew from P18,182 million to P22,226 million. The domestic operations contributed P20,310 million, while the international operations contributed US$36 million.

Interest income increased by 50% or by P95 million mainly due to higher money market placements and improved interest rates for the domestic operations.

Interest expense and other financing charges declined by 8% with the lower interest rates on outstanding loans.

Other charges as of the third quarter amounted to P59 million, in contrast to other income of P695 million as of the third quarter of 2021. Other income recognized in 2021 primarily pertained to the proceeds from the tax refund case of all beer products and gain on the disposal of North China operations' assets. Moreover, the depreciation of the Philippine peso against the U.S. dollar in 2022 resulted to a higher marked to market loss in the domestic operations.

Income tax expense increased by 38% or by P1,382 million with the higher income from the improved operations.

Consolidated net income rose by 15%, from P14,049 million in the first nine months of 2021 to P16,161 million in the first nine months of 2022. The domestic operations contributed P14,534 million, while the international operations contributed US$30 million.

Net income attributable to equity holders of the parent company was higher by 14% or by P1,979 million, while net income attributable to non-controlling interest increased by 42% or by P133 million primarily due to the higher income of San Miguel Beer (Thailand) Limited and PT Delta Djakarta Tbk.

The domestic operations continued its strong performance as of the third quarter of 2022 reaching P88,375 million revenue, 19% higher than as of the third quarter of 2021 with the higher sales volume, as well as the price increase implemented late 2021. The significant volume growth in both alcoholic and non-alcoholic beverages was driven by the Segment's brand-building and demand-generating programs in key channels, capitalizing on the country's positive economic growth, and further easing of restrictions that paved the way for the re-opening of on-premise outlets.

Income from operations grew by 20% as of September 30, 2022 from P16,937 million in 2021 to P20,310 million in 2022 despite rising production costs. The Segment's favorable performance was supported by engaging thematic brand campaigns and on-ground initiatives that capitalized on market opportunities to strengthen value proposition and boost demand.

As a result of the foregoing, net income for the first nine months of 2022 hit P14,534 million from P12,637 million in the first nine months of 2021.

SMBIL registered US$198 million in consolidated revenue as of September 30, 2022, 20% higher than as of September 30, 2021 as a result of the 17% increase in volumes.

Volumes of SMBIL's local and global San Miguel brands increased by 3% and 23%, respectively. Thailand, Indonesia and Exports operations sustained high growth rates due to the reopening of markets. Volumes in Thailand remained favorable at 145% higher than in the first three quarters of 2021 due to the ongoing initiatives in the modern trade, off-premise and wholesaler channels, aided in part by the revival of tourism in major destinations where the San Miguel brand is particularly strong. The Indonesia operations also posted strong volumes, translating to a 15% increase versus volumes in the first three quarters of 2021, driven by distributor and wholesaler incentive programs, as well as the gradual recovery in the on-premise outlets. SMBIL's Exports business continued its double-digit volume growth momentum. Meanwhile, sales in the Hong Kong, South China and Vietnam operations were still lower than in the first three quarters of 2021. Hong Kong operations managed to turnaround the 15% and 3% volume declines in the first and second quarter, respectively, to a 1% growth in the third quarter due to the combined penetration and recovery programs for on-premise outlets. Similarly, the 23% volume decline in Vietnam operations in the first semester was cushioned by the 75% growth in the third quarter as a result of sales expansion support programs. Meanwhile, the South China operations' volumes remained challenged, but its operations still managed to narrow the 18% volume decline in the first semester to 10% in the third quarter. Incremental volumes in certain markets from the new wheat ale, San Miguel Cerveza Blanca, also contributed to the increase in SMBIL consolidated volumes.

SMBIL's consolidated operating income for the nine-month period of 2022 was higher by 38% at US$36 million, largely driven by favorable volumes and increased selling prices, tempered by increasing production costs, particularly materials and fuel costs, and higher advertising and promotions spending.

<u>Spirits</u>
The Spirits Segment generated a consolidated revenue of P34,534 million for the nine months ended September 30, 2022, 12% higher than same period in 2021 brought about by higher volumes and selling prices. The gains from higher selling price were eroded by material and other operating cost increases. Nevertheless, increases in sales volume and selling prices prompted a 10% growth in gross profit.

Higher spending for delivery and personnel expenses, contracted services, and fuel led to the 7% increase in operating expenses to P4,181 million over the same period in 2021.

Interest income rose 124% to P65 million mainly driven by the high-yield money market placements. Additionally, interest expense and other financing charges improved by P6 million owing to partial payments of interest-bearing loans.

Other income decreased by P231 million from same period in 2021 due to the impact of the Philippine peso's decline against the U.S. dollar.

The Group's net income increased 7% to P3,385 million for the first nine months of 2022 from P3,170 million for the same period in 2021.

<u>Food</u>
The Food Segment continued to deliver robust performance and registered consolidated revenues of P128,019 million for the first nine months of 2022, 18% higher than same period in 2021 as most businesses sustained double-digit revenue growth. Apart from higher sales volume driven by resurgence of out-of-home activities, revenue was bolstered by better selling prices and improved sales mix, partly cushioning the impact of rising costs of major raw materials and other manufacturing costs.

> The Protein business, comprised of the poultry and fresh meats businesses, recorded revenues of P51,348 million, up by 6% compared to revenues in the first three quarters of 2021. The poultry business grew revenues by 10%, as tight supply kept selling prices of chicken on the high side. Increase in out-of-home dining boosted demand for chicken especially in the foodservice segment, while the Magnolia Chicken Timplados® line continues to grow, offering a wide variety of ready-to-cook products catering to in-home consumers' needs. On the other hand, revenues of the fresh meats business declined against revenues in the first three quarters of 2021 alongside downsized hog operations. Pork selling prices remained elevated due to short pork industry supply.

The Animal Nutrition and Health business reported revenues of P32,039 million, 29% higher compared to same period in 2021. Despite a series of price increases implemented to partly pass on the impact of higher raw material costs, sales volume of major feed types still grew, primarily enabled by consistent supply availability and superior feed quality. Steady recovery of hog feeds, opening of new accounts, and wider distribution also contributed to volume growth.

The Prepared and Packaged Food business, consisting of the processed meats, ready-to-eat, seafood and plant-based food, dairy, spreads and coffee businesses, registered revenues of P33,798 million, up by 16% against same period in 2021. The frozen processed meats category kept up volume growth momentum, led by Tender Juicy® Hotdogs, Purefoods Chicken Nuggets and Purefoods native line. Volume growth of the canned processed meats category, on the other hand, was led by Purefoods Corned Beef, Purefoods Luncheon Meat and Star canned products. Magnolia butter, cheese, margarine and flour premixes, as well as San Mig Coffee Sugarfree, Original and Barako variants, likewise recorded higher volume compared to same period in 2021.

The Food Segment's cost of sales increased to P101,325 million in the first nine months of 2022, 23% higher than same period in 2021, mainly driven by higher sales volume. Cost of sales also increased on account of higher prices of key manufacturing inputs, such as wheat, corn, soybean meal, imported meat, dairy, and other raw materials, as well as fuel and power. The continuing Russia-Ukraine tension, global supply constraints, and the impact of Philippine peso depreciation contributed to the inflationary increase in production costs.

Notwithstanding sharp cost increases, the Food Segment's gross profit reached P26,694 million, modestly growing by 1% against same period 2021 levels.

Selling and administrative expenses were tightly contained at P15,882 million, same as comparable period 2021's level, through prudent fixed cost spending and maximized utilization of company-owned facilities.

As a result, the Food Segment posted consolidated operating income of P10,812 million for the three quarters ending September 30, 2022, 3% higher compared to same period in 2021.

II. FINANCIAL POSITION

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

			Horizontal Analysis Increase (Decrease)		Vertical Analysis	
(in millions)	September 2023	December 2022	Amount	%	2023	2022
ASSETS						
Current Assets						
Cash and cash equivalents	50,830	41,099	9,731	24%	15%	12%
Trade and other receivables - net	21,546	22,110	(564)	(3%)	6%	7%
Inventories	45,123	60,746	(15,623)	(26%)	13%	18%
Current portion of biological assets - net	3,709	3,418	291	9%	1%	1%
Prepaid expenses and other current assets	8,206	5,412	2,794	52%	2%	2%
Assets held for sale	-	172	(172)	(100%)	0%	0%
Total Current Assets	129,414	132,957	(3,543)	(3%)	38%	39%
Noncurrent Assets						
Investments - net	17,248	17,143	105	1%	5%	5%
Property, plant and equipment - net	112,839	106,611	6,228	6%	33%	31%
Right-of-use assets - net	4,721	5,171	(450)	(9%)	1%	2%
Investment property - net	3,561	3,638	(77)	(2%)	1%	1%
Biological assets - net of current portion	2,738	2,671	67	3%	1%	1%
Goodwill - net	996	996	-	0%	0%	0%
Other intangible assets - net	39,333	39,365	(32)	(0%)	11%	12%
Deferred tax assets	2,450	2,510	(60)	(2%)	1%	1%
Other noncurrent assets - net	28,824	28,416	408	1%	8%	8%
Total Noncurrent Assets	212,710	206,521	6,189	3%	62%	61%
Total Assets	**342,124**	**339,478**	**2,646**	**1%**	**100%**	**100%**
LIABILITIES AND EQUITY						
Current Liabilities						
Loans payable	10,446	21,055	(10,609)	(50%)	3%	6%
Trade payables and other current liabilities	59,445	62,536	(3,091)	(5%)	17%	18%
Lease liabilities - current portion	367	432	(65)	(15%)	0%	0%
Income and other taxes payable	8,589	5,474	3,115	57%	3%	2%
Dividends payable	396	67	329	491%	0%	0%
Current maturities of long-term debt - net of debt issue costs	2,953	506	2,447	484%	1%	0%
Total Current Liabilities	82,196	90,070	(7,874)	(9%)	24%	27%
Noncurrent Liabilities						
Long-term debt – net of current maturities and debt issue costs	79,993	77,733	2,260	3%	23%	23%
Deferred tax liabilities	23	23	-	0%	0%	0%
Lease liabilities – net of current portion	4,801	5,041	(240)	(5%)	1%	1%
Other noncurrent liabilities	6,630	7,538	(908)	(12%)	2%	2%
Total Noncurrent Liabilities	91,447	90,335	1,112	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	(708)	(836)	128	(15%)	(0%)	(0%)
Retained earnings:						
Appropriated	45,394	31,366	14,028	45%	13%	9%
Unappropriated	49,538	57,860	(8,322)	(14%)	14%	17%
Treasury stock	(30,182)	(30,182)	-	0%	(9%)	(9%)
Equity Attributable to Equity Holders of the Parent Company	109,120	103,286	5,834	6%	32%	30%
Non-controlling Interests	59,361	55,787	3,574	6%	17%	16%
Total Equity	168,481	159,073	9,408	6%	49%	47%
Total Liabilities and Equity	**342,124**	**339,478**	**2,646**	**1%**	**100%**	**100%**

Consolidated total assets as of September 30, 2023 amounted to P342,124 million, 1% or P2,646 million higher than that of the December 31, 2022 level. The increase was primarily due to higher cash generated from operations, higher prepaid taxes due to deferred value-added tax (VAT) remittance and expansion projects of the Group, offset by lower inventory. Consolidated total liabilities as of September 30, 2023 amounted to P173,643 million, 4% or P6,762 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 24% or by P9,731 million due to higher cash generated from operations, proceeds from transfer of product rights, and deferred VAT remittance that was offset by payment of dividends and funding of investing activities.

Inventories decreased by 26% or by P15,623 million mainly due to lower materials and supplies and the increase in production volume relative to the 2022 year-end inventory balance.

Biological assets increased by 6% or by P358 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 52% or by P2,794 million mainly due to higher input tax balance and VAT payments as a result of the BIR's implementation of quarterly filing of VAT starting 2023 as compared to the usual monthly filing from prior year, the Beer and NAB Segment's receipt of tax credit certificate from tax refund cases and higher excise tax prepayments.

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

Loans payable decreased by 50% or by P10,609 million due to settlement and lower availments during the period because of improved collection of receivables.

Income and other taxes payable increased by 57% or by P3,115 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 491% or by P329 million mainly due to higher dividends declared during the period and unclaimed dividends.

Consolidated total equity as of September 30, 2023 amounted to P168,481 million, 6% or P9,408 million higher than the December 31, 2022 level. The increase was primarily due to the net income amounting to P27,483 million less the dividends declared by the Group amounting P18,354 million during the period.

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

(in millions)	September 2022	December 2021	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis 2022	2021
ASSETS						
Current Assets						
Cash and cash equivalents	46,012	41,581	4,431	11%	14%	14%
Trade and other receivables - net	18,391	22,857	(4,466)	(20%)	6%	8%
Inventories	56,676	44,429	12,247	28%	17%	15%
Current portion of biological assets - net	3,690	3,106	584	19%	1%	1%
Prepaid expenses and other current assets	6,043	6,357	(314)	(5%)	2%	2%
Total Current Assets	130,812	118,330	12,482	11%	40%	40%
Noncurrent Assets						
Investments - net	5,927	5,157	770	15%	2%	2%
Property, plant and equipment - net	104,754	91,085	13,669	15%	32%	31%
Right-of-use assets - net	5,375	4,747	628	13%	2%	2%
Investment property - net	3,529	3,385	144	4%	1%	1%
Biological assets - net of current portion	2,602	2,244	358	16%	1%	1%
Goodwill - net	996	996	-	0%	0%	0%
Other intangible assets - net	39,403	39,160	243	1%	12%	13%
Deferred tax assets	2,182	2,137	45	2%	1%	1%
Other noncurrent assets - net	28,560	30,383	(1,823)	(6%)	9%	10%
Total Noncurrent Assets	193,328	179,294	14,034	8%	60%	60%
Total Assets	**324,140**	**297,624**	**26,516**	**9%**	**100%**	**100%**
LIABILITIES AND EQUITY						
Current Liabilities						
Loans payable	11,832	5,191	6,641	128%	4%	2%
Trade payables and other current liabilities	61,421	60,817	604	1%	19%	20%
Lease liabilities - current portion	451	412	39	9%	0%	0%
Income and other taxes payable	4,754	5,605	(851)	(15%)	1%	2%
Dividends payable	418	57	361	633%	0%	0%
Current maturities of long-term debt - net of debt issue costs	274	7,180	(6,906)	(96%)	0%	2%
Total Current Liabilities	79,150	79,262	(112)	(0%)	24%	27%
Noncurrent Liabilities						
Long-term debt – net of current maturities and debt issue costs	72,912	66,225	6,687	10%	22%	22%
Deferred tax liabilities	29	26	3	12%	0%	0%
Lease liabilities – net of current portion	5,152	4,422	730	17%	2%	1%
Other noncurrent liabilities	7,611	2,227	5,384	242%	2%	1%
Total Noncurrent Liabilities	85,704	72,900	12,804	18%	26%	24%
Equity						
Capital stock	6,251	6,251	-	0%	2%	2%
Additional paid-in capital	366,620	366,620	-	0%	113%	123%
Equity adjustments from common control transactions	(327,793)	(327,793)	-	0%	(101%)	(110%)
Equity reserves	275	(950)	1,225	(129%)	0%	(0%)
Retained earnings:						
Appropriated	27,461	31,043	(3,582)	(12%)	8%	10%
Unappropriated	60,383	48,448	11,935	25%	19%	16%
Treasury stock	(30,182)	(30,182)	-	0%	(9%)	(10%)
Equity Attributable to Equity Holders of the Parent Company	103,015	93,437	9,578	10%	32%	31%
Non-controlling Interests	56,271	52,025	4,246	8%	17%	17%
Total Equity	159,286	145,462	13,824	10%	49%	49%
Total Liabilities and Equity	**324,140**	**297,624**	**26,516**	**9%**	**100%**	**100%**

Consolidated total assets as of September 30, 2022 amounted to P324,140 million, 9% or P26,516 million higher than December 31, 2021 level. The increase was primarily due to higher cash generated from operations. Consolidated total liabilities as of September 30, 2022 amounted to P164,854 million, 8% or P12,692 million higher than December 31, 2021 level. The increase was primarily due to the Food Segment's availment of short-term debt and purchase of properties on account.

Cash and cash equivalents increased by 11% or by P4,431 million due to higher cash generated from operations and collection of receivables.

Trade and other receivables decreased by 20% or by P4,466 million due to collection from peak season sales, lower credit availment of dealers and improved collection efforts.

Inventories increased by 28% or by P12,247 million due to higher cost of raw materials and higher level of both raw materials and finished goods inventory of the Food Segment and the Beer and NAB Segment.

Biological assets increased by 18% or by P942 million due to increase in costs and volume of flocks loaded compared to December 2021.

Prepaid expenses and other current assets decreased by 5% or by P314 million mainly due to lower prepaid taxes and full utilization of Tax Credit Certificates issued by the BIR, offset by increase in prepaid insurance and retirement contribution.

Investments increased by 15% or by P770 million due to the Beer and NAB Segment's foreign exchange gain on revaluation.

Property, plant and equipment increased by 15% or by P13,669 million due to the Food and the Beer and NAB Segments' expansion projects.

Right-of-use assets increased by 13% or by P628 million due to the Food Segment's additional recognition.

Other noncurrent assets decreased by 6% or by P1,823 million mainly due to the Beer and NAB Segment's write-off and culletization of bottles and decrease on advances to suppliers and contractors due to reclassification to property, plant and equipment.

Loans payable increased by 128% or by P6,641 million due to the Food Segment's availment of short-term borrowings during the period to fund the inventory build-up leading to the start of the holiday season.

Income and other taxes payable decreased by 15% or by P851 million due to the Group's lower taxable income as compared to the fourth quarter of 2021.

Dividends payable increased by 381% or by P217 million mainly due to the Group's unclaimed dividends.

Other noncurrent liabilities increased by 242% or by P5,384 million due to the Food Segment's purchase of properties on account and increase in pension liability.

Consolidated total equity as of September 30, 2022 amounted to P159,286 million, 10% or P13,824 million higher than December 31, 2021 level. The increase was primarily due to the net income amounting to P26,347 million less the dividends declared by the Group amounting P15,284 million during the period.

III. SOURCES AND USES OF CASH

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

(in millions)	**2023**	**2022**
Net cash flows provided by operating activities	P52,374	P33,346
Net cash flows used in investing activities	(18,447)	(21,314)
Net cash flows used in financing activities	(24,415)	(9,054)

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	(P9,932)	(P16,017)
Increase in biological assets, intangible assets and other noncurrent assets	(9,400)	(5,425)
Proceeds from sale of investments and property, and equipment	125	29
Dividends received	105	99
Interest received	655	-

Net cash used in financing activities consist of the following:

(in millions)	**2023**	**2022**
Proceeds from short-term and long-term borrowings	P181,814	P38,357
Payments of short-term and long-term borrowings	(187,805)	(31,867)
Cash dividends paid	(18,025)	(15,067)
Payment of lease liabilities	(398)	(477)
Payment of share issuance costs	(1)	-

The effect of foreign exchange rate changes on cash and cash equivalents amounted to P219 million and P1,453 million for the periods ended September 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 September 30, 2023	As of December 31, 2022
Liquidity:		
Current Ratio	1.57	1.48
Quick Ratio	0.88	0.70
Solvency:		
Debt to Equity Ratio	1.03	1.13
Asset to Equity Ratio	2.03	2.13
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	20.09%	22.63%
Interest Rate Coverage Ratio	10.96	13.94
Return on Assets	10.50%	10.88%

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Operating Efficiency:		
Volume Growth	0.30%	8.00%
Revenue Growth	5.78%	17.95%
Operating Margin	12.54%	14.37%

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*

V. OTHER MATTERS

a. Commitments

   The outstanding purchase commitments of the Group amounted to P81,109 million and P67,751 million as at September 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 September 30, 2023.

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

					Past Due			
		Total		Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P	19,012	P	15,495	P 2,555	P 217	P 76	P 669
Non-trade		1,688		823	116	29	41	679
Others		2,072		373	100	51	115	1,433
Total		22,772	P	16,691	P 2,771	P 297	P 232	P 2,781
Less allowance for impairment losses		1,226						
Net	P	21,546						

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 September 30, 2023	As of December 31, 2022
Liquidity:		
Current Ratio	1.57	1.48
Quick Ratio	0.88	0.70
Solvency:		
Debt to Equity Ratio	1.03	1.13
Asset to Equity Ratio	2.03	2.13
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	20.09%	22.63%
Interest Rate Coverage Ratio	10.96	13.94
Return on Assets	10.50%	10.88%

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Operating Efficiency:		
Volume Growth	0.30%	8.00%
Revenue Growth	5.78%	17.95%
Operating Margin	12.54%	14.37%

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*