CR05532-2022

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended
   Jun 30, 2022
2. SEC Identification Number
   11840
3. BIR Tax Identification No.
   000-100-341-000
4. Exact name of issuer as specified in its charter
   SAN MIGUEL FOOD AND BEVERAGE, INC.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
   100 E. Rodriguez Jr. Avenue (C-5 Road), Barangay Ugong, Pasig City, Metro Manila
   Postal Code
   1604
8. Issuer's telephone number, including area code
   (632) 5317-5000
9. Former name or former address, and former fiscal year, if changed since last report
   N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON SHARES (FB)	5,909,220,090
SERIES A BONDS DUE MARCH 2025 (IN PESO)	8,000,000,000.00
SERIES B BONDS DUE MARCH 2027 (IN PESO)	7,000,000,000.00
TOTAL DEBT as of 30JUN22 (IN MIL PESO - CONSO)	152,055

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

● Yes ○ No

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

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

12. Indicate by check mark whether the registrant:

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

● Yes ○ No

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

● Yes ○ No

SAN MIGUEL
FOOD AND BEVERAGE, INC.

San Miguel Food and Beverage, Inc.
FB

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

For the period ended	Jun 30, 2022
Currency (indicate units, if applicable)	PHP (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2022	Dec 31, 2021
Current Assets	122,894	118,330
Total Assets	308,387	297,624
Current Liabilities	71,714	79,262
Total Liabilities	152,055	152,162
Retained Earnings/(Deficit)	87,273	79,491
Stockholders' Equity	156,332	145,462
Stockholders' Equity - Parent	101,870	93,437
Book Value per Share	17.24	15.81

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	89,068	70,429	172,122	146,791
Gross Expense	75,201	59,956	145,555	123,749
Non-Operating Income	145	265	240	393
Non-Operating Expense	1,208	592	1,961	1,349
Income/(Loss) Before Tax	12,804	10,146	24,846	22,086
Income Tax Expense	3,197	2,462	6,088	4,723
Net Income/(Loss) After Tax	9,607	7,684	18,758	17,363
Net Income Attributable to Parent Equity Holder	6,338	5,264	12,509	11,815
Earnings/(Loss) Per Share (Basic)	1.07	0.89	2.12	2
Earnings/(Loss) Per Share (Diluted)	1.07	0.89	2.12	2

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	3.47	3.4
Earnings/(Loss) Per Share (Diluted)	3.47	3.4

Other Relevant Information

Please see attached SEC Form 17-Q (Quarterly Report) of the Company for the period ended June 30, 2022 submitted to the Securities and Exchange Commission via email at ictdsubmission@sec.gov.ph on August 12, 2022.

Filed on behalf by:

Name	Alexandra Trillana
Designation	Corporate Secretary and Compliance Officer

SEC COPY

COVER SHEET

11840

S. E. C. Registration Number

SAN MIGUEL FOOD

AND BEVERAGE, INC.

(Company's Full Name)

100 E. RODRIGUEZ JR.

AVENUE C-5 ROAD,

BARANGAY UGONG

PASIG CITY 1604

METRO MANILA

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 5 317-5450

Company Telephone

Number

SEC Form

17-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

Document I. D.

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 **June 30, 2022**

2. SEC Identification Number **11840**

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

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

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

6. ______ SEC Use Only
Industry Classification Code

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

1604
Postal code

8. **(02) 5317-5000**
Issuer's telephone number, including area code

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

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

	Number of Shares Issued and Outstanding and Total Liabilities (As of June 30, 2022)
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)	**P152,055**

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", formerly San Miguel Pure Foods Company Inc.) and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2022 (with comparative figures as of December 31, 2021 and for the period ended June 30, 2021) 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.

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.** ***(formerly San Miguel Pure Foods Company Inc.)***

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

Date August 12, 2022

Annex “A”

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
As at June 30, 2022 and December 31, 2021 and
For the Periods Ended June 30, 2022 and 2021

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND DECEMBER 31, 2021

(In Millions)

	Note	**2022 Unaudited**	2021 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 9*	**P50,801**	P41,581
Trade and other receivables - net	*6, 8, 9*	**18,271**	22,857
Inventories		**44,850**	44,429
Current portion of biological assets - net		**3,405**	3,106
Prepaid expenses and other current assets	*6, 8, 9,10*	**5,567**	6,357
Total Current Assets		**122,894**	118,330
Noncurrent Assets			
Investments - net	*8, 9*	**5,559**	5,157
Property, plant and equipment - net	*4*	**97,683**	91,085
Right-of-use assets - net		**5,226**	4,747
Investment property - net		**3,424**	3,385
Biological assets - net of current portion		**2,592**	2,244
Goodwill - net		**996**	996
Other intangible assets - net		**39,308**	39,160
Deferred tax assets	*10*	**2,097**	2,137
Other noncurrent assets - net	*6, 8, 9*	**28,608**	30,383
Total Noncurrent Assets		**185,493**	179,294
		P308,387	P297,624
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*6, 8, 9*	**P2,920**	P5,191
Trade payables and other current liabilities	*6, 8, 9*	**61,928**	60,817
Lease liabilities - current portion	*6, 8, 9*	**470**	412
Income and other taxes payable	*10*	**5,415**	5,605
Dividends payable	*5*	**641**	57
Current maturities of long-term debt – net of debt issue costs	*8, 9*	**340**	7,180
Total Current Liabilities		**71,714**	79,262
Noncurrent Liabilities			
Long-term debt – net of current maturities and debt issue costs	*8, 9*	**72,969**	66,225
Deferred tax liabilities		**26**	26
Lease liabilities – net of current portion	*6, 8, 9*	**5,000**	4,422
Other noncurrent liabilities	*6, 8, 9*	**2,346**	2,227
Total Noncurrent Liabilities		**80,341**	72,900

Forward

CERTIFIED CORRECT:

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

	Note	**2022 Unaudited**	2021 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	*10*	**(299)**	(950)
Retained earnings:			
Appropriated		**27,461**	31,043
Unappropriated	*10*	**59,812**	48,448
Treasury stock		**(30,182)**	(30,182)
		101,870	93,437
Non-controlling Interests	*10*	**54,462**	52,025
Total Equity		**156,332**	145,462
		P308,387	P297,624

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

CERTIFIED CORRECT:

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

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021

(In Millions, Except Per Share Data)

				For the Quarter Ended	
	Note	**2022 Unaudited**	2021 Unaudited	**2022 Unaudited**	2021 Unaudited
SALES	*3*	**P172,122**	P146,791	**P89,068**	P70,429
COST OF SALES		**122,799**	102,303	**63,526**	49,390
GROSS PROFIT		**49,323**	44,488	**25,542**	21,039
SELLING AND ADMINISTRATIVE EXPENSES		**(22,756)**	(21,446)	**(11,675)**	(10,566)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(1,633)**	(1,671)	**(844)**	(788)
INTEREST INCOME		**237**	246	**147**	119
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		**3**	147	**(2)**	146
OTHER INCOME (CHARGES) - Net	*8, 9*	**(328)**	322	**(364)**	196
INCOME BEFORE INCOME TAX		**24,846**	22,086	**12,804**	10,146
INCOME TAX EXPENSE		**6,088**	4,723	**3,197**	2,462
NET INCOME		**P18,758**	P17,363	**P9,607**	P7,684
Attributable to:					
Equity holders of the Parent Company		**P12,509**	P11,815	**P6,338**	P5,264
Non-controlling interests		**6,249**	5,548	**3,269**	2,420
		P18,758	P17,363	**P9,607**	P7,684
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*7*	**P2.12**	P2.00	**P1.07**	P0.89

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

CERTIFIED CORRECT:

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

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021

(In Millions)

			For the Quarter Ended	
	2022 Unaudited	2021 Unaudited	**2022 Unaudited**	2021 Unaudited
NET INCOME	**P18,758**	P17,363	**P9,607**	P7,684
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Share in other comprehensive loss of joint ventures	**-**	(4)	**-**	-
Remeasurement gain (loss) on reserve for retirement plan	**(3)**	(3)	**-**	101
Income tax benefit (expense)	**1**	(174)	**-**	(101)
Net gain on financial assets at fair value through other comprehensive income	**1**	-	**1**	-
	(1)	(181)	**1**	-
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations	**1,452**	(36)	**1,108**	48
	1,452	(36)	**1,108**	48
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**1,451**	(217)	**1,109**	48
TOTAL COMPREHENSIVE INCOME - Net of tax	**P20,209**	P17,146	**P10,716**	P7,732
Attributable to:				
Equity holders of the Parent Company	**P13,160**	P11,638	**P6,822**	P5,295
Non-controlling interests	**7,049**	5,508	**3,894**	2,437
	P20,209	P17,146	**P10,716**	P7,732

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

CERTIFIED CORRECT:

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

SAN MIGUEL FOOD AND BEVERAGE, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021

(In Millions)

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

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								Retained Earnings		Treasury Stock				
	Note	Common	Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Non-controlling Interests	Total Equity
As at January 1, 2021 (Audited)		P5,951	P300	P366,620	(P328,273)	(P1,640)	P10	(P38)	(P77)	P28,613	P41,122	(P182)	(P30,000)	P82,406	P49,413	P131,819
Share in other comprehensive gain (loss) of joint ventures		-	-	-	-	-	-	(5)	-	-	-	-	-	(5)	1	(4)
Remeasurement loss on reserve for retirement plan		-	-	-	-	(119)	-	-	-	-	-	-	-	(119)	(58)	(177)
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	-	(53)	-	-	-	-	-	(53)	17	(36)
Other comprehensive loss		-	-	-	-	(119)	-	(58)	-	-	-	-	-	(177)	(40)	(217)
Net income		-	-	-	-	-	-	-	-	-	11,815	-	-	11,815	5,548	17,363
Total comprehensive income (loss)		-	-	-	-	(119)	-	(58)	-	-	11,815	-	-	11,638	5,508	17,146
Share issuance costs and others		-	-	-	-	-	-	-	-	-	10	-	-	10	(3)	7
Net addition (reduction) to non-controlling interests		-	-	-	480	(31)	-	(1)	-	-	-	-	-	448	(1,448)	(1,000)
Appropriation		-	-	-	-	-	-	-	-	2,000	(2,000)	-	-	-	-	-
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(4,727)	-	-	(4,727)	(3,867)	(8,594)
As at June 30, 2021 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,790)	P10	(P97)	(P77)	P30,613	P46,220	(P182)	(P30,000)	P89,775	P49,603	P139,378

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

CERTIFIED CORRECT:

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

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021

(In Millions)

	Note	**2022 Unaudited**	2021 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P24,846**	P22,086
Adjustments for:			
Depreciation and amortization	*4*	**6,084**	5,719
Interest expense and other financing charges		**1,633**	1,671
Retirement costs		**644**	645
Provision for impairment losses on receivables, write-down of inventories, property and equipment and noncurrent assets		**742**	713
Gain on sale of investments and property and equipment		**(3)**	(146)
Gain on fair valuation of agricultural produce		**(56)**	(20)
Dividend income		**(65)**	(60)
Interest income		**(237)**	(246)
Other charges net of loss on derivative transactions		**243**	153
Operating income before working capital changes		**33,831**	30,515
Decrease (increase) in:			
Trade and other receivables		**4,527**	4,999
Inventories		**(477)**	(1,066)
Biological assets		**(299)**	(28)
Prepaid expenses and other current assets		**435**	946
Increase (decrease) in trade payables and other current liabilities		**619**	(2,992)
Cash generated from operations		**38,636**	32,374
Income taxes paid		**(6,042)**	(5,055)
Interest paid		**(2,113)**	(2,140)
Contributions paid		**(162)**	(109)
Interest received		**226**	225
Net cash flows provided by operating activities		**30,545**	25,295
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and investment property	*4*	**(7,779)**	(5,332)
Increase in biological assets, intangible assets and other noncurrent assets		**(2,885)**	(492)
Proceeds from sale of investments and property and equipment		**12**	158
Cash dividends received		**65**	60
Net cash flows used in investing activities		**(10,587)**	(5,606)

Forward

CERTIFIED CORRECT:

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

	Note	**2022 Unaudited**	2021 Unaudited
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term borrowings		**P8,188**	P43,729
Long-term borrowings		**6,948**	11,910
Payments of:			
Short-term borrowings		**(10,459)**	(45,553)
Long-term borrowings		**(7,094)**	(12,550)
Lease liabilities		**(322)**	(293)
Share issuance costs		**-**	11
Redemption of outstanding preferred shares		**-**	(1,000)
Cash dividends paid	*5*	**(8,755)**	(8,592)
Increase in other non-current liabilities		**-**	(45)
Net cash flows used in financing activities		**(11,494)**	(12,383)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**756**	108
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,220**	7,414
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**41,581**	37,013
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P50,801**	P44,427

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)

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1. Reporting Entity

San Miguel Food and Beverage, Inc. (SMFB or the “Parent Company”, formerly San Miguel Pure Foods Company Inc.), 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, specialty oils, spreads, desserts and dairy-based products, snacks and condiments, 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.

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2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended June 30, 2022 and comparative financial statements for the same period in 2021 following the presentation rules under Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 3, 2022.

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

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

Adoption of Amended Standards

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards as part of PFRS.

Amended Standards Adopted in 2022

The Group has adopted the following PFRS effective January 1, 2022 and accordingly, changed its accounting policies in the following areas:

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories.*

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e., it comprises both incremental costs and an allocation of other direct costs.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards, of which the following are applicable to the Group:

  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *Financial Instruments*). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

  - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement.*

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:
  - replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements;
  - added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2022 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 amended standards on the respective effective dates:

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). 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 requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if an entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; 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, 2023, with early application permitted.

- 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 entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Disclosure of Accounting Policies (Amendments to PAS 1 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 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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

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

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

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

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

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

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

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

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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 and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively known as “Prepared and Packaged Food”); (ii) the production and sale of feeds (“Animal Nutrition and Health”); (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats (“Protein”); and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations (“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	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Sales												
External sales	**P83,993**	P72,235	**P64,984**	P54,331	**P23,145**	P20,225	**P172,122**	P146,791	**P-**	P-	**P172,122**	P146,791
Inter-segment sales	**-**	1	**1**	1	**3**	3	**4**	5	**(4)**	(5)	**-**	-
Total sales	**P83,993**	P72,236	**P64,985**	P54,332	**P23,148**	P20,228	**P172,126**	P146,796	**(P4)**	(P5)	**P172,122**	P146,791
Results												
Segment results*	**P8,569**	P8,351	**P14,727**	P12,077	**P3,271**	P2,614	**P26,567**	P23,042	**P-**	P-	**P26,567**	P23,042

**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	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Timing of Revenue Recognition								
Sales recognized at point in time	**P83,981**	P72,224	**P64,984**	P54,331	**P23,145**	P 20,225	**P172,110**	P146,780
Sales recognized over time	**12**	11	**-**	-	**-**	-	**12**	11
Total external sales	**P83,993**	P72,235	**P64,984**	P54,331	**P23,145**	P20,225	**P172,122**	P146,791

4. Property, Plant and Equipment

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

June 30, 2022 and December 31, 2021

	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, 2021 (Audited)	P16,371	P32,730	P83,953	P4,029	P1,105	P20,542	P158,730
Additions	79	40	101	176	4	10,474	10,874
Disposals	(1)	(239)	(501)	(107)	(65)	(1)	(914)
Reclassifications	(102)	1,642	3,103	50	529	(4,851)	371
Currency translation adjustments	(47)	507	1,276	31	3	6	1,776
December 31, 2021 (Audited)	16,300	34,680	87,932	4,179	1,576	26,170	170,837
Additions	3	12	54	39	-	7,666	7,774
Disposals	-	(12)	(333)	(49)	(3)	-	(397)
Reclassifications	8	318	1,358	1,211	76	(1,703)	1,268
Currency translation adjustments	28	355	806	29	-	5	1,223
June 30, 2022 (Unaudited)	**16,339**	**35,353**	**89,817**	**5,409**	**1,649**	**32,138**	**180,705**
Accumulated Depreciation and Amortization							
January 1, 2021 (Audited)	1,402	10,326	46,191	2,935	370	-	61,224
Depreciation and amortization	225	1,008	3,372	372	84	-	5,061
Disposals	(1)	(205)	(471)	(90)	(60)	-	(827)
Reclassifications	(76)	(126)	(97)	(82)	28	-	(353)
Currency translation adjustments	-	174	518	26	(2)	-	716
December 31, 2021 (Audited)	1,550	11,177	49,513	3,161	420	-	65,821
Depreciation and amortization	106	479	1,652	216	42	-	2,495
Disposals	-	(4)	(330)	(48)	-	-	(382)
Reclassifications	(2)	65	26	12	7	-	108
Currency translation adjustments	4	160	397	23	-	-	584
June 30, 2022 (Unaudited)	**1,658**	**11,877**	**51,258**	**3,364**	**469**	**-**	**68,626**
Accumulated Impairment Losses							
January 1, 2021 (Audited)	-	3,127	9,675	79	1	-	12,882
Impairment	38	1	29	-	-	-	68
Disposals	-	-	(19)	(3)	-	-	(22)
Reclassifications	-	-	9	(9)	-	-	-
Currency translation adjustments	-	264	733	6	-	-	1,003
December 31, 2021 (Audited)	38	3,392	10,427	73	1	-	13,931
Disposals	-	(4)	-	-	-	-	(4)
Currency translation adjustments	-	94	372	3	-	-	469
June 30, 2022 (Unaudited)	**38**	**3,482**	**10,799**	**76**	**1**	**-**	**14,396**
Carrying Amount							
December 31, 2021	P14,712	P20,111	P27,992	P945	P1,155	P26,170	P91,085
June 30 2022 (Unaudited)	**P14,643**	**P 19,994**	**P27,760**	**P1,969**	**P1,179**	**P32,138**	**P97,683**

June 30, 2021

	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, 2021 (Audited)	16,371	32,730	83,953	4,029	1,105	20,542	158,730
Additions	-	8	35	18	2	5,269	5,332
Disposals	-	(106)	(19)	(51)	(6)	-	(182)
Reclassifications	153	904	1,022	(12)	7	(1,845)	229
Currency translation adjustments	(55)	127	287	1	1	-	361
June 30, 2021 (Unaudited)	**16,469**	**33,663**	**85,278**	**3,985**	**1,109**	**23,966**	**164,470**
Accumulated Depreciation and Amortization							
January 1, 2021 (Audited)	1,402	10,326	46,191	2,935	370	-	61,224
Depreciation and amortization	108	463	1,616	183	48	-	2,418
Disposals	-	(104)	(16)	(42)	-	-	(162)
Reclassifications	-	(24)	(21)	(44)	(7)	-	(96)
Currency translation adjustments	(3)	38	74	-	1	-	110
June 30, 2021 (Unaudited)	**1,507**	**10,699**	**47,844**	**3,032**	**412**	**-**	**63,494**
Accumulated Impairment Losses							
January 1, 2021 (Audited)	-	3,127	9,675	79	1	-	12,882
Reclassifications	-	-	-	(3)	-	-	(3)
Currency translation adjustments	-	80	217	2	-	-	299
June 30, 2021 (Unaudited)	**-**	**3,207**	**9,892**	**78**	**1**	**-**	**13,178**
Carrying Amount							
June 30, 2021 (Unaudited)	**P14,962**	**P19,757**	**P27,542**	**P875**	**P696**	**P23,966**	**P87,798**

Depreciation and amortization recognized in the consolidated statements of income amounted to P2,495 and P2,418 for the periods ended June 30, 2022 and 2021, respectively.

5. Dividends

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

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**	**P0.40**

2021

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	February 3, 2021	February 18, 2021	March 3, 2021	P0.40
	May 5, 2021	May 20, 2021	June 4, 2021	P0.40

6. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as at June 30, 2022 and December 31, 2021:

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate Parent Company	**June 30, 2022**	**P136**	**P823**	**P186**	**P1,538**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2021	P223	P1,696	P261	P806		
Entities under Common Control of the Intermediate Parent Company	**June 30, 2022**	**519**	**16,636**	**692**	**14,159**	On demand; non- interest bearing	Unsecured; no impairment
	December 31, 2021	846	35,303	770	14,707		
Joint Venture	**June 30, 2022**	**-**	**155**	**621**	**10**	On demand or less than 2 to 5 years; interest bearing	Unsecured; With impairment
	December 31, 2021	1	335	627	4		
Retirement Plan	**June 30, 2022**	**-**	**-**	**-**	**87**	On demand; non-interest bearing	Unsecured; no impairment
Associate of Intermediate Parent Company	December 31, 2021	1		-	-	Less than 3 months; interest bearing	Unsecured; no impairment
Shareholders in Subsidiaries and its Affiliates	**June 30, 2022**	**61**	**1,619**	**109**	**79**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2021	56	4,315	131	52		
Total	**June 30, 2022**	**P716**	**P19,233**	**P1,608**	**P15,873**		
Total	December 31, 2021	P1,127	P41,649	P1,789	P15,569		

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

b. The amounts owed by joint venture includes receivables from Thai San Miguel Liquor Company Limited and Siam Wine and Liquor 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 P621, both were fully provided as at June 30, 2022 and December 31, 2021.

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.

7. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and diluted EPS is computed as follows:

	June 30	
	2022	2021
Net income attributable to common shareholders of the Parent Company (a)	**P12,509**	P11,815
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 (a/b)	**P2.12**	P2.00

As at June 30, 2022 and 2021, the Parent Company has no dilutive equity instruments.

8. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group’s corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors’ qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management’s process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

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

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

Interest Rate Risk

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

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

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

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

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

Interest Rate Risk Table

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

June 30, 2022	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Fixed Rate					
Philippine peso-denominated	**P289**	**P25,068**	**P29,275**	**P11,130**	**P65,762**
Interest rate	**3.284%-4.2105%**	**3.284%-6.00%**	**3.284%-5.7513%**	**3.5483%-4.15%**	
Floating Rate					
Philippine peso-denominated	**P60**	**P238**	**P238**	**P7,464**	**P8,000**
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**	
	P349	**P25,306**	**P29,513**	**P18,594**	**P73,762**

December 31, 2021	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Fixed Rate					
Philippine peso-denominated	P7,188	P13,151	P27,232	P18,284	P65,855
Interest rate	3.875%-6.60%	3.284%-6.00%	3.2840%-5.05%	3.5830%-5.25%	
Floating Rate					
Philippine peso-denominated		P238	P238	P7,524	P8,000
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	
	P7,188	P13,389	P27,470	P25,808	P73,855

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group’s profit before tax (through the impact on floating rate borrowings) by P40 and P80 for the period and year ended June 30, 2022 and December 31, 2021, 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 are as follows:

	June 30, 2022		December 31, 2021	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$217**	**P11,908**	US$210	P10,716
Trade and other receivables	**29**	**1,591**	22	1,129
Noncurrent receivables	**-**	**9**	-	10
	246	**13,508**	232	11,855
Liabilities				
Trade payables and other current liabilities	**122**	**6,710**	101	5,170
Lease liabilities	**1**	**40**	1	38
Other noncurrent liabilities	**-**	**15**	-	14
	123	**6,765**	102	5,222
Net Foreign Currency-denominated Monetary Assets	**US$123**	**P6,743**	US$130	P6,633

The Group reported net loss on foreign exchange amounting to P30 and P12 for the periods ended June 30, 2022 and 2021, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2022	**P54.975**
December 31, 2021	50.999
June 30, 2021	48.800
December 31, 2020	48.023

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
June 30, 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	**(P15)**	**(P213)**	**P15**	**P213**
Trade and other receivables	**(4)**	**(28)**	**4**	**28**
	(19)	**(241)**	**19**	**241**
Trade payables and other current liabilities	**41**	**112**	**(41)**	**(112)**
Lease liabilities	**-**	**1**	**-**	**(1)**
	41	**113**	**(41)**	**(113)**
	P22	**(P128)**	**(P22)**	**P128**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2021	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	(P20)	(P205)	P20	P205
Trade and other receivables	(1)	(22)	1	22
	(21)	(227)	21	227
Trade payables and other current liabilities	21	96	(21)	(96)
Other noncurrent liabilities	-	1	-	(1)
	21	97	(21)	(97)
	P-	(P130)	P-	P130

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

June 30, 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	**P50,801**	**P50,801**	**P50,801**	**P -**	**P -**	**P -**
Trade and other receivables - net	**18,271**	**18,271**	**18,271**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**19**	**19**	**19**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Investments" account)	**5,559**	**5,559**	**-**	**-**	**-**	**5,559**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**194**	**194**	**-**	**57**	**41**	**96**
Financial Liabilities						
Loans payable	**2,920**	**2,934**	**2,934**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding derivative liabilities)	**61,474**	**61,474**	**61,474**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**454**	**454**	**454**	**-**	**-**	**-**
Long-term debt (including current maturities)	**73,309**	**81,872**	**2,009**	**4,611**	**55,443**	**19,809**
Lease liabilities (including current portion)	**5,470**	**6,359**	**484**	**393**	**947**	**4,535**
Other noncurrent liabilities	**34**	**34**	**-**	**19**	**-**	**15**

December 31, 2021	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	P41,581	P41,581	P41,581	P -	P -	P -
Trade and other receivables - net	22,857	22,857	22,857	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	23	23	23	-	-	-
Financial assets at FVOCI (included under "Investments" account)	5,157	5,157	-	-	-	5,157
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	198	198	-	88	43	67
Financial Liabilities						
Loans payable	5,191	5,150	5,150	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	60,613	60,613	60,613	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account)	204	204	204	-	-	-
Long-term debt (including current maturities)	73,405	86,953	10,065	3,260	46,064	27,564
Lease liabilities (including current portion)	4,834	11,823	680	589	1,429	9,125
Other non-current liabilities	47	47	-	33	-	14

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.

Credit Quality

In monitoring and controlling credit extended to a 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.

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

	June 30 2022	December 31 2021
Cash and cash equivalents (excluding cash on hand)	**P50,454**	P41,483
Trade and other receivables - net	**18,271**	22,857
Derivative assets	**19**	23
Financial assets at FVOCI	**5,559**	5,157
Noncurrent receivables and deposits - net	**194**	198
	P74,497	P69,718

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

	June 30, 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)	**P50,454**	**P -**	**P -**	**P -**	**P50,454**
Trade and other receivables - net	**18,271**	**-**	**1,425**	**-**	**19,696**
Derivative assets	**-**	**-**	**-**	**19**	**19**
Noncurrent receivables and deposits - net	**-**	**194**	**-**	**-**	**194**
Total	**P68,725**	**P194**	**P1,425**	**P19**	**P70,363**

	Financial Assets at Amortized Cost				
December 31, 2021	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)	P41,483	P -	P -	P -	P41,483
Trade and other receivables - net	22,857	-	1,385	-	24,242
Derivative assets	-	-	-	23	23
Noncurrent receivables and deposits - net	-	198	-	-	198
	P64,340	P198	P1,385	P23	P65,946

The aging of receivables is as follows:

June 30, 2022	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P12,446**	**P823**	**P333**	**P13,602**
Past due:				
1-30 days	**1,568**	**92**	**67**	**1,727**
31-60 days	**369**	**82**	**119**	**570**
61-90 days	**351**	**71**	**29**	**451**
Over 90 days	**807**	**1,515**	**1,024**	**3,346**
	P15,541	**P2,583**	**P1,572**	**P19,696**

December 31, 2021	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P15,549	P1,135	P558	P17,242
Past due:				
1-30 days	3,479	224	74	3,777
31-60 days	510	86	39	635
61-90 days	66	145	14	225
Over 90 days	802	658	903	2,363
	P20,406	P2,248	P1,588	P24,242

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

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

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

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

9. Financial Assets and Financial Liabilities

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

	June 30, 2022		December 31, 2021	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P50,801**	**P50,801**	P41,581	P41,581
Trade and other receivables - net	**18,271**	**18,271**	22,857	22,857
Derivative assets (included under "Prepaid expenses and other current assets" account)	**19**	**19**	23	23
Financial assets at FVOCI (included under "Investments" account)	**5,559**	**5,559**	5,157	5,157
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**194**	**194**	198	198
Financial Liabilities				
Loans payable	**2,920**	**2,920**	5,191	5,191
Trade payables and other current liabilities (excluding derivative liabilities)	**61,474**	**61,474**	60,613	60,613
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**454**	**454**	204	204
Long-term debt (including current maturities)	**73,309**	**71,136**	73,405	74,450
Lease liabilities (including current portion)	**5,470**	**5,470**	4,834	4,834
Other noncurrent liabilities	**34**	**34**	47	47

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.

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

Long-term Debt and Lease Liabilities. The fair value of interest-bearing fixed rate loans is based on the discounted value expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As at June 30, 2022 and December 31, 2021, discount rates used ranges from 1.30% to 6.18% and from 1.07% to 4.70% respectively.

Derivative Financial Instruments

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

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at June 30 and March 31, 2022 and December 31, 2021, the total outstanding notional amount of such embedded currency forwards amounted to US$159, US$202, and US$215, 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 P435, P144 and P181 as at June 30 and March 31, 2022, and December 31, 2021, respectively.

The Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P469 and P99, and P87 and P52 for the periods ended June 30, 2022 and 2021, and March 31, 2022 and 2021, respectively.

Fair Value Changes on Derivatives

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

	June 30, 2022	December 31, 2021
Balance at beginning of year	**(P181)**	P148
Net change in fair value of derivatives	**(469)**	(509)
	(650)	(361)
Less fair value of settled instruments	**215**	542
Balance at end of year	**(P435)**	(P181)

Fair Value Hierarchy

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

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

	June 30, 2022			December 31, 2021		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P-**	**P19**	**P19**	P -	P23	P23
Financial assets at FVOCI	**5,559**	**-**	**5,559**	5,156	1	5,157
Financial Liabilities						
Derivative liabilities	**-**	**454**	**454**	-	204	204

The Group has no financial instruments valued based on Level 3 as at June 30, 2022 and December 31, 2021. For the period ended June 30, 2022 and for the year ended December 31, 2021, 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. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law

The CREATE Act, which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Group are: (i) reduction of Regular Corporate Income Tax rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of Minimum Corporate Income Tax rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE law are as follows:

	Increase (Decrease)
ASSETS	
Prepaid expenses and other current assets	134
Deferred tax assets	(361)
	(227)
LIABILITIES AND EQUITY	
Income and other taxes payable	(687)
Equity reserves	(174)
Retained earnings	361
Non-controlling interests	273
	(227)
INCOME TAX EXPENSE	
Current	(821)
Deferred	185
	(636)

11. Other Matters

a. Commitments

The outstanding purchase commitments of the Group amounted to P69,946 and P38,004 as at June 30, 2022 and December 31, 2021, respectively.

These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

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

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

d. The effect of Coronavirus Disease 2019 pandemic and Russia-Ukraine conflict in the performance of the Group as at first semester of 2022 are discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

12. Events After the Reporting Date

On August 3, 2022, the BOD of the Parent Company declared regular and special cash dividends to all common shareholders of record as of August 18, 2022 amounting to P0.40 and P0.26 per common share, respectively. Cash dividends for common shares is payable on September 2, 2022.

SAN MIGUEL
FOOD AND BEVERAGE, INC.

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 of and for the period ended June 30, 2022 (with comparative figures as of December 31, 2021 and for the period ended June 30, 2021). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2022, 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 meat products, and plant-based food, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively and hereinafter referred to as “Prepared and Packaged Food”); (ii) the production and sale of feeds and veterinary medicine (hereinafter referred to as “Animal Nutrition and Health”); (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats (hereinafter referred to as “Protein”); and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, foodservice, franchising and international operations (collectively referred to as “Others”).

I. FINANCIAL PERFORMANCE

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

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

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

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

Sales

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

Cost of Sales

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

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

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

Gross profit

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

Selling and Administrative Expenses

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

Interest Expense and Other Financing Charges

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

Interest Income

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

Gain on Sale of Investments and Property and Equipment

The Group recognized a gain of P3 million from the disposal and sale of fixed assets in the first half of 2022.

Other Income (charges) - Net

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

Net Income before Income Tax

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

Income Tax Expense

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

Net Income

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

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

Business Highlights for the period ended June 30, 2022

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

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

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

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

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

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

Other income amounted to P25 million, 94% lower than the same period in 2021 primarily due to lower gain on disposal of North China Operations' assets this year and marked to market loss in the domestic operations as a result of the depreciation of the Philippine Peso against the United States Dollar.

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

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

San Miguel Brewing International Limited (SMBIL) registered US$126 million in consolidated revenue for the first semester of 2022, 24% higher than last year as a result of the increase in volumes.

Volumes of SMBIL's global San Miguel brands, which include all San Miguel brand beers and Red Horse beer, and its local brands, sold in Indonesia, South China, Hong Kong and Vietnam, increased by 34% and 4%, respectively. First quarter growth rates of 21% versus last year improved to 27% in the second quarter due to the gradual reopening of markets in Thailand, Indonesia and in the Exports business. Incremental volumes from the new wheat ale, San Miguel Cerveza Blanca, also contributed to the high growth rates. The operations in Thailand continued to post higher volumes due to sustained growth in the modern trade off-premise channel, further relaxation of restrictions in key tourist destinations and extended selling hours of alcoholic beverages in outlets. The Indonesia operations also registered favorable volumes due to programs centered on traditional trade outlets served by wholesalers and distributors, tempered by the slower anticipated recovery in the modern trade on-premise outlets. SMBIL's Exports business sustained its volume growth trend throughout the pandemic years. Meanwhile, the Hong Kong, South China and Vietnam operations were still negatively impacted by the Coronavirus Disease-2019 (COVID-19) resurgence and reimposition of travel and dining restrictions. The Hong Kong operations, however, managed to narrow down the 15% volume decline in the first quarter to 8% in the second quarter as restrictions on social distancing were further eased in the on-premise channel. South China volumes were affected by the more frequent temporary closures of on-premise outlets and lockdowns in the various cities. Similarly, due to the surge of COVID-19 cases, the extended on-premise restrictions throughout most of the first quarter and the varying levels of domestic restrictions imposed by the government in the second quarter led to the volume decline in Vietnam.

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

Spirits

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

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

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

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

Food

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

The Protein business, comprised of the poultry and fresh meats businesses, posted revenues of P34,223 million, up by 3% compared to same period last year's level. Revenues of the poultry business grew by 7%, as selling prices of chicken further increased amid a tight supply situation, primarily driven by the surge in demand for chicken especially in the foodservice segment. The business likewise expanded Magnolia chicken offerings through the value-added Timplados® line. Meanwhile, revenues of the fresh meats business declined against same period last year's level as a result of the deliberate downsizing of its hog operations. Tight pork supply, on the other hand, kept pork selling prices on the high side.

The Animal Nutrition and Health business, meanwhile, reported revenues of P21,045 million, 31% higher than in the first semester of 2021 due to sustained volume growth from all major feed types that continue to benefit from the opening of new accounts, wider distribution, consistent supply availability and superior feed quality. Revenue growth was also driven by a series of price increases implemented to partly mitigate steep raw material cost hikes.

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

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

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

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

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

Six months ended June 30, 2021 compared to six months ended June 30, 2020

	JUNE		HORIZONTAL ANALYSIS INCREASE (DECREASE)		VERTICAL ANALYSIS	
(in millions)	**2021**	**2020**	**AMOUNT**	**%**	**2021**	**2020**
SALES	146,791	122,815	23,976	20%	100%	100%
COST OF SALES	102,303	89,574	12,729	14%	70%	73%
GROSS PROFIT	44,488	33,241	11,247	34%	30%	27%
SELLING AND ADMINISTRATIVE EXPENSES	(21,446)	(21,878)	432	(2%)	(15%)	(18%)
OPERATING RESULTS	23,042	11,363	11,679	103%	16%	9%
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(1,671)	(1,860)	189	(10%)	(1%)	(2%)
INTEREST INCOME	246	467	(221)	(47%)	0%	0%
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	147	-	147	100%	0%	0%
OTHER INCOME – NET	322	289	33	11%	0%	0%
INCOME BEFORE INCOME TAX	22,086	10,259	11,827	115%	15%	8%
INCOME TAX EXPENSE	4,723	2,921	1,802	62%	3%	2%
NET INCOME	17,363	7,338	10,025	137%	12%	6%
Attributable to:						
Equity holders of the Parent Company	11,815	4,189	7,626	182%	8%	3%
Non-controlling interests	5,548	3,149	2,399	76%	4%	3%
	17,363	7,338	10,025	137%	12%	6%

The Group’s performance for the first half of 2021 continues to reflect the impact of the COVID-19 pandemic, and the Group’s efforts to continuously adapt to evolving market opportunities and challenges.

Consolidated sales for the six months ended June 30, 2021 amounted to P146,791 million, 20% higher compared to the same period in 2020, while the consolidated net income amounted to P17,363 million, 137% higher than in the same period in 2020. This is attributable to the strength of the Group's brands across all business segments.

Sales
Consolidated sales increased by 20%, from P122,815 million for the six months ended June 30, 2020 to P146,791 million for the same period in 2021. The increase was mainly due to higher sales of the Group. Sales in the Beer and NAB Segment increased by 27%, from P42,793 million in 2020 to P54,331 million in 2021, sales in the Spirits Segment increased by 36%, from P14,842 million in 2020 to P20,225 million in 2021, and sales in the Food Segment increased by 11%, from P65,180 million in 2020 to P72,235 million in 2021.

Cost of Sales
Consolidated cost of sales increased by 14%, from P89,574 million for the six months ended June 30, 2020 to P102,303 million for the same period in 2021 primarily due to the higher sales volume of the Group, and higher excise taxes. Cost of sales in the Beer and NAB Segment increased by 26%, from P26,903 million in 2020 to P33,860 million in 2021, cost of sales in the Spirits Segment increased by 41%, from P10,692 million in 2020 to P15,079 million in 2021, and cost of sales in the Food Segment increased by 3%, from P51,979 million in 2020 to P53,364 million in 2021.

The following table summarizes the cost of sales for the six months ended June 30, 2021 (in millions):

	Beer and NAB	Spirits	Food	Total
Inventories	P4,862	P6,083	P46,095	P57,040
Excise tax	25,947	8,237	-	34,184
Labor	789	158	884	1,831
Others	2,262	601	6,385	9,248
	P33,860	P15,079	P53,364	P102,303

Gross profit
Consolidated gross profit increased by 34%, from P33,241 million for the six months ended June 30, 2020 to P44,488 million for the same period in 2021. The increase was primarily driven by the increase in sales volume in the Food and Spirits Segments.

Selling and Administrative Expenses
Consolidated selling and administrative expenses decreased by 2%, from P21,878 million for the six months ended June 30, 2020 to P21,446 million for the same period in 2021. Broken down per segment, selling and administrative expenses for the Beer and NAB Segment decreased by 2%, from P8,529 million in 2020 to P8,393 million in 2021, selling and administrative expenses for the Spirits Segment increased by 8%, from P2,343 million in 2020 to P2,532 million in 2021, and selling and administrative expenses for the Food Segment decreased by 4%, from P11,006 million in 2020 to P10,521 million in 2021 (includes other administrative expenses of the Parent Company amounting to P40 million). On a consolidated basis, the decrease was primarily due to the decrease in personnel expenses of the Beer and NAB Segment, which was offset to some extent by the higher operating costs of the Spirits Segment.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges decreased by 10%, from P1,860 million for the six months ended June 30, 2020 to P1,671 million for the same period in 2021 as a result of interest savings of the Spirits Segment on settled loans, and lower interest rates for borrowings of the Food and Beer and NAB Segments.

Interest Income
Consolidated interest income decreased by 47%, from P467 million for the six months ended June 30, 2020 to P246 million for the same period in 2021 primarily due to lower average level of money market placements and lower interest rates.

Gain on Sale of Investments and Property and Equipment
The Group recognized a gain of P147 from the disposal and sale of fixed assets in the first half of 2021.

Other Income - Net

The Group recognized consolidated other income amounting to P322 million for the six months ended June 30, 2021, which was 11% higher compared to consolidated other income of P289 million for the same period in 2020. The increase was primarily due to the investment income of the Beer and NAB Segment, lower casualty loss of the Food Segment, and increased revenue from tolling fees of the Spirits Segment.

Net Income before Income Tax

As a result of the foregoing, consolidated net income before income tax increased by 115%, from P10,259 million for the six months ended June 30, 2020 to P22,086 million for the same period in 2021.

Income Tax Expense

The income tax expense increased by 62%, from P2,921 million for the six months ended June 30, 2020 to P4,723 million for the same period in 2021 due to the higher taxable income. Nonetheless, the Group benefitted from lower tax rates from the implementation of Republic Act No. 11534 also known as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Law), which reduced income tax rates from 30% to 25% effective July 2020.

Net Income

As a result of the foregoing, SMFB's consolidated net income increased by 137%, from P7,338 million for the six months ended June 30, 2020 to P17,363 million for the same period in 2021. Net income of the Beer and NAB Segment increased by 89%, from P5,025 million in 2020 to P9,507 million in 2021, while net income of the Spirits Segment increased by 66%, from P1,257 million in 2020 to P2,087 million in 2021. The Food Segment recognized net income amounting to P5,769 million (inclusive of other administrative expenses of the Parent Company) in the first half of 2021 compared to the net income of P1,056 million for the same period in 2020.

Net Income after Tax and Minority Interest

SMFB's consolidated net income after tax and minority interest increased by 182%, from P4,189 million for the six months ended June 30, 2020 to P11,815 million for the same period in 2021. Net income after tax and minority interest of the Beer and NAB Segment increased by 90%, from P2,517 million in 2020 to P4,777 million in 2021, net income after tax and minority interest of the Spirits Segment increased by 85%, from P855 million in 2020 to P1,581 million in 2021, while net income after tax and minority interest of the Food Segment increased from P817 million in 2020 to P5,457 million (inclusive of other administrative expenses of the Parent Company) in 2021.

Business Highlights for the period ended June 30, 2021

Beer and NAB

The Beer and NAB Segment managed to post a 27% increase in revenue to P54,331 million in the first semester of 2021 versus first semester 2020 revenue of P42,793 million. The growth in revenues was attained due to strong volume growth in the second quarter, resulting in a 15% increase in consolidated volumes to 97.4 million cases for the first half of 2021. Domestic operations registered a very encouraging second quarter, posting an 82% volume growth versus same period in 2020, reversing its 13% volume decline in the first quarter. This led first half 2021 volumes to grow 16% to 87.5 million cases, despite the ongoing various community lockdowns and liquor bans throughout National Capital Region and neighboring provinces and stricter quarantine protocols from end-March to mid-May. Revenues amounted to P49,422 million, up 29%, while operating income grew 60% to P11,450 million versus the comparable period in 2020.

Cost of sales increased by 26% to P33,860 million primarily due to the higher sales volume of domestic operations, coupled by the increase in excise tax rate implemented in January 2021. Domestic operations accounted for P31,126 million while international operations accounted for US$57 million of total cost of sales.

Selling and administrative expenses decreased by 2% or by P136 million due to lower distribution and advertising and promotions expenses. Domestic operations accounted for P6,846 million while international operations accounted for US$32 million of total selling and administrative expenses.

Consequently, income from operations increased by 64% to P12,078 million. Domestic operations contributed P11,450 million while international operations contributed US$13 million.

Interest income decreased by 66% or by P250 million with lower interest rates prevailing in the market as well as shorter average tenor of placements for the domestic operations compared with the same period in 2020 despite the higher average placements for the first six months of 2021.

Other income for the first half of 2021 is higher by 181% or by P264 million primarily due to the sale of a property and dividend income of SMBIL from its investment in redeemable perpetual securities.

Income tax expense increased by 17% or by P312 million primarily due to higher income as a result of improved operations.

Consolidated net income increased by 89% to P9,507 million. Domestic operations contributed P8,647 million, while international operations contributed US$18 million.

SMBIL registered US$102 million in consolidated revenue for the first semester of 2021, 19% higher than in the first semester of 2020 as a result of the 15% increase in volumes.

Volumes of SMBIL's local and global San Miguel brands increased by 27% and 12%, respectively. Licensed brands' volumes were also higher by 4%. The results from the different markets varied given the country specific developments in their COVID-19 situations. Indonesia operations registered a significant improvement in the first five months' volumes as sales in the same period in 2020 was drastically affected by the stringent lockdown and social distancing measures in response to the initial wave of COVID-19 infections. This resulted in the closure of most on-premise outlets, wholesalers and distributors. However, starting in June, succeeding months' volumes in Indonesia was challenged as the country had been battling record-high daily infections brought about by the Delta variant. South China operations also registered an increase in volumes as on-premise outlets started to slowly reopen. SMBIL's Exports business sustained its volume growth trend from 2020 despite the continuing and different levels of restrictions in its exports markets. On the other hand, Hong Kong and Vietnam operations, which started the first quarter with volume improvements, experienced worse COVID-19 surges versus same period in 2020. Similarly, Thailand, which hardly had any serious surge in 2020, dealt with a severe surge of COVID-19 infections which prompted the local government to impose new and tighter restrictions. This resulted in the extended ban on selling alcoholic beverages in on-premise outlets which account for majority of SMBIL's volumes.

SMBIL rationalized and consolidated its China operations to improve profitability and efficiency. The North China unit stopped operations in February 2020 and is undergoing liquidation. Meanwhile, after its expiry in November 2020, SMBIL did not renew the joint venture agreement of Guangzhou San Miguel Brewery Co. Ltd. (GSMB) and instead smoothly transitioned and integrated the sales and marketing function of GSMB into San Miguel (Guangdong) Brewery Co. Ltd., the brewery that manufactures San Miguel products in South China. GSMB is likewise undergoing liquidation process. Excluding North China operations, total volume was 16% better than in the first six months of 2020.

SMBIL's consolidated operating income for the first half of 2021 was more than twofold higher or increased by 230% at US$13 million, due to favorable volumes and lower advertising and promotions and the benefits of the restructuring of its China operations.

Spirits

The Spirits Segment delivered a strong first semester performance, generating revenues of P20,225 million, up 36% from the same period in 2020 driven by higher volume and price increase. Likewise, gross profit increased by 24% versus the comparable period in 2020 as a result of the price increase and lower composite bottle cost.

Operating expenses rose by P189 million due to the increase in personnel costs, delivery expenses and several advertising placements implemented early in 2021.

Interest expense decreased by P50 million due to the continuous reduction of interest-bearing loans. On the other hand, interest income increased by P14 million due to returns on short term cash placements.

Despite the decrease in tax rate from 30% to 25% pursuant to the CREATE Law, income tax expense was up by 14% owing to the higher operating income versus the equivalent period in 2020.

In the end, the Spirits Segment posted a consolidated net income of P2,087 million, a 66% improvement versus the first half of 2020.

Food

The Food Segment sustained its strong performance throughout the first half of the year and posted consolidated revenues of P72,235 million, 11% higher than in the same period in 2020, amidst continuing operational challenges as the COVID-19 pandemic persisted. Revenue growth was primarily driven by the Protein and Animal Nutrition and Health businesses on account of better selling prices and higher volumes.

Protein, consisting of the poultry and fresh meats businesses, maintained its robust recovery and registered revenues of P33,104 million, 20% higher than in the comparable period in 2020. Chicken selling prices rallied as poultry inventory stabilized from 2020's glut, while pork selling prices climbed due to tight pork supply. Revenues also grew as quarantine restrictions eased and as operations of supermarkets and lechon manok outlets normalized. The foodservice channel, likewise, recovered when a significant number of major food chain outlets reopened. The business' network of community resellers continued to expand and delivered strong results through improved availability and consumer access to poultry and other products of the Food Segment. Meanwhile, the lingering impact of the African Swine Fever (ASF) continued to hamper the movement of marketable hogs, limiting the ability of the business to deliver products to different parts of the country.

The Animal Nutrition and Health business recorded revenues of P16,101 million, 11% higher than in the equivalent period in 2020 on account of the continued strong demand for free range fowl feeds, duck, layer and aquatic feeds. Sales of free range fowl feeds grew by double-digit driven by increased breeding activities. Layer and duck feeds sales volumes likewise rose by double-digit due to increased requirements from directly-served farm accounts, while sales volume of aquatic feeds benefitted from the recovery of farms affected by the January 2020 Taal volcano eruption. On the other hand, demand for hog feeds remained dampened by ASF.

The Prepared and Packaged Food business reported revenues of P18,979 million, 1% lower than the sales volume surge in the comparable period in 2020, which was influenced by heavy consumer stockpiling of packaged and shelf-stable products during the first Enhanced Community Quarantine implementation. Even while industry volumes declined due to softer demand, core products and flagship brands, such as Purefoods Tender Juicy® hotdogs, Purefoods chicken nuggets, Dari Crème and Magnolia flour mixes, continued to deliver double-digit volume growth.

The Food Segment's cost of sales increased to P53,371 million in the first half of 2021, increasing at a slower pace of 3% compared to the same period in 2020, mainly on account of higher sales volume, partly offset by favorable cost of some major raw materials and impact of peso appreciation.

Driven by the strong and consistent recovery of the Protein business, favorable selling prices, better product mix, volume gains and cost breaks in some major raw materials, the Food Segment's gross profit rose to P18,864 million, 43% higher than in the first semester of 2020.

Selling and administrative expenses of P10,505 million was 4% lower than in the equivalent period in 2020 on account of the continued cost reduction efforts and optimized utilization of company-owned facilities.

As a result, the Food Segment registered consolidated operating income of P8,359 million (excluding Parent Company expenses) in the first six months of 2021, quadrupling that of same period in 2020.

II. FINANCIAL POSITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position as of June 30, 2021 vs December 31, 2020

	June	December	Horizontal Analysis Increase (Decrease)		Vertical Analysis	
(in millions)	2021	2020	Amount	%	2021	2020
ASSETS						
Current Assets						
Cash and cash equivalents	44,427	37,013	7,414	20%	16%	13%
Trade and other receivables - net	15,105	20,032	(4,927)	(25%)	5%	7%
Inventories	36,319	35,393	926	3%	13%	13%
Current portion of biological assets - net	3,428	3,401	27	1%	1%	1%
Prepaid expenses and other current assets	5,944	7,201	(1,257)	(17%)	2%	3%
Total Current Assets	105,223	103,040	2,183	2%	38%	37%
Noncurrent Assets						
Investments - net	4,933	4,859	74	2%	2%	2%
Property, plant and equipment - net	87,798	84,624	3,174	4%	32%	31%
Right-of-use assets - net	4,549	4,824	(275)	(6%)	2%	2%
Investment property - net	2,944	2,951	(7)	(0%)	1%	1%
Biological assets - net of current portion	2,060	2,352	(292)	(12%)	1%	1%
Goodwill - net	996	996	-	0%	0%	0%
Other intangible assets - net	39,414	39,538	(124)	(0%)	14%	14%
Deferred tax assets	2,031	2,857	(826)	(29%)	1%	1%
Other noncurrent assets - net	28,089	30,241	(2,152)	(7%)	10%	11%
Total Noncurrent Assets	172,814	173,242	(428)	(0%)	62%	63%
Total Assets	**278,037**	**276,282**	**1,755**	**1%**	**100%**	**100%**
LIABILITIES AND EQUITY						
Current Liabilities						
Loans payable	8,955	10,780	(1,825)	(17%)	3%	4%
Trade payables and other current liabilities	53,232	54,438	(1,206)	(2%)	19%	20%
Lease liabilities - current portion	298	379	(81)	(21%)	0%	0%
Income and other taxes payable	3,906	6,044	(2,138)	(35%)	1%	2%
Dividends payable	49	47	2	4%	0%	0%
Current maturities of long-term debt - net of debt issue costs	7,183	12,621	(5,438)	(43%)	3%	5%
Total Current Liabilities	73,623	84,309	(10,686)	(13%)	26%	31%
Noncurrent Liabilities						
Long-term debt – net of current maturities and debt issue costs	59,320	54,478	4,842	9%	21%	20%
Deferred tax liabilities	26	26	-	0%	0%	0%
Lease liabilities – net of current portion	4,278	4,403	(125)	(3%)	2%	2%
Other noncurrent liabilities	1,412	1,247	165	13%	1%	0%
Total Noncurrent Liabilities	65,036	60,154	4,882	8%	23%	22%
Equity						
Capital stock	6,251	6,251	-	0%	2%	2%
Additional paid-in capital	366,620	366,620	-	0%	132%	133%
Equity adjustments from common control transactions	(327,793)	(328,273)	480	(0%)	(118%)	(119%)
Equity reserves	(1,954)	(1,745)	(209)	12%	(1%)	(1%)
Retained earnings:						
Appropriated	30,613	28,613	2,000	7%	11%	10%
Unappropriated	46,220	41,122	5,098	12%	17%	15%
Treasury stock	(30,182)	(30,182)	-	0%	(11%)	(11%)
Equity Attributable to Equity Holders of the Parent Company	89,775	82,406	7,369	9%	32%	30%
Non-controlling Interests	49,603	49,413	190	0%	18%	18%
Total Equity	139,378	131,819	7,559	6%	50%	48%
Total Liabilities and Equity	**278,037**	**276,282**	**1,755**	**1%**	**100%**	**100%**

Consolidated total assets as of June 30, 2021 amounted to P278,037 million, 1% or P1,755 million higher than December 31, 2020 level. The increase was primarily due to collection of receivables and higher cash generated from operations. Consolidated total liabilities as of June 30, 2021 amounted to P138,659 million, 4% or P5,804 million lower than December 31, 2020 level. The decrease was primarily due to the settlement of long-term debt of the Beer and NAB Segment and the Spirits Segment, and the Food Segment's settlement of loans payable, which was partially offset by the additional long-term debt of the Beer and NAB Segment.

Cash and cash equivalents increased by 20% or by P7,414 million due to higher cash generated from operations and net proceeds from the Beer and NAB Segment's long-term debt.

Trade and other receivables decreased by 25% or by P4,927 million due to collection of receivables from peak season sales of the Beer and NAB and Food Segments from December 2020.

Inventories increased by 3% or by P926 million due to higher ending inventory of the Food Segment due to strategic purchases of raw materials.

Prepaid expenses and other current assets decreased by 17% or by P1,257 million mainly due to the Food Segment's application of creditable withholding taxes, and the Beer and NAB Segment's utilization of remaining tax credit certificates.

Investments increased primarily due to movement in financial assets at fair value through other comprehensive income.

Property, plant and equipment increased by 4% or by P3,174 million due to the expansion projects of the Beer and NAB and Food Segments.

Right-of-use assets decreased by 6% or by P275 million mainly due to amortization.

Investment property slightly decreased by P7 million mainly due to depreciation.

Deferred tax assets decreased by 29% or by P826 million due to lower tax rates as an impact of the CREATE Law, and the Food Segment's application of Net Operating Losses Carry Over and Minimum Corporate Income Tax to tax due.

Loans payable decreased by 17% or by P1,825 million due to payments made by the Food Segment.

Lease liabilities decreased by 4% or by P206 million mainly due to lower interest expense recorded related to lease contracts about to end of the Food Segment, and adjustments to rent expense of the Beer and NAB Segment.

Income and other taxes payable decreased by 35% or by P2,138 million due to the lower taxable income of the Group for the first half of 2021 compared to December 2020, and lower tax rates.

Dividends payable increased by 4% or by P2 million mainly due to the increase in unclaimed dividends payable of the Spirits Segment.

Other noncurrent liabilities increased by 13% or by P165 million due to the Food Segment's additional set-up of retirement costs for the first half of 2021.

Consolidated total equity as of June 30, 2021 amounted to P139,378 million, 6% or P7,559 million higher than December 31, 2020 level. The increase was primarily due to the net income amounting to P17,363 million less the dividends declared by the Group amounting P8,594 million during the period.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements for the periods ended June 30, 2022 and 2021 is shown below:

(in millions)	**2022**	**2021**
Net cash flows provided by operating activities	P30,545	P25,295
Net cash flows used in investing activities	(10,587)	(5,606)
Net cash flows used in financing activities	(11,494)	(12,383)

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)	**2022**	**2021**
Additions to property, plant and equipment and investment property	(P7,779)	(P5,332)
Increase in biological assets, intangible assets and other noncurrent assets	(2,885)	(492)
Proceeds from sale of investments and property, and equipment	12	158
Dividends received	65	60

Net cash used in financing activities consist of the following:

(in millions)	2022	2021
Proceeds from short-term and long-term borrowings	P15,136	P55,639
Payments of short-term and long-term borrowings	(17,553)	(58,103)
Cash dividends paid	(8,755)	(8,592)
Payment of lease liabilities	(322)	(293)
Decrease in non-controlling interest and others	-	(989)
Increase in other noncurrent liabilities	-	(45)

The effect of exchange rate changes on cash and cash equivalents amounted to P756 million and P108 million for the period ended June 30, 2022 and 2021, respectively.

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	As of June 30, 2022	As of December 31, 2021
Liquidity:		
Current Ratio	1.71	1.49
Quick Ratio	0.96	0.81
Solvency:		
Debt to Equity Ratio	0.97	1.05
Asset to Equity Ratio	1.97	2.05
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	20.98%	22.51%
Interest Rate Coverage Ratio	16.21	13.14
Return on Assets	10.83%	10.95%

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Operating Efficiency:		
Volume Growth	9.00%	9.00%
Revenue Growth	17.26%	19.52%
Operating Margin	15.43%	15.70%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets – Inventory – Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$

Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income*}}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}} - 1\right)$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} - 1\right)$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

** *Excluding preferred capital stock and related additional paid-in capital*

V. OTHER MATTERS

a. Commitments

   The outstanding purchase commitments of the Group amounted to P69,946 and P38,004 as at June 30, 2022 and December 31, 2021, respectively.

   These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

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 season. In addition, alcoholic beverages experience increased sales in the summer season, which typically slow down in the third quarter as a result of rainy weather. 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 relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period June 30, 2022.

h. Effect of COVID-19 on Business Operations

   2022 was a year of economic recovery which saw business operations once again opening up, while the challenges of COVID-19 still remained. Commercial activities have started to pick up as COVID-19 quarantine restrictions were relatively lighter compared to the previous two years. The Group delivered robust financial results, demonstrating resilience in the face of challenges brought about by the ongoing pandemic. These solid results were supported by consistent volume recovery throughout the period.

i. Russia-Ukraine Conflict

   The ongoing conflict between Russia and Ukraine has no direct effect on the Group. However, based on recent events and market sentiments, oil prices are high as a result of tight oil supply, increase in the cost of raw materials, which was triggered by the rise in global demand vs supply on certain items, as well as supply chain constraints were caused by the uncertainties brought about by the Russia-Ukraine crisis.

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
June 30, 2022
(In Millions)

				Past Due							
		Total		**Current**		**1 - 30 Days**		**31 - 60 Days**		**61 - 90 Days**		**Over 90 Days**
Trade	P	15,541	P	12,446	P	1,568	P	369	P	351	P	807
Non-trade		2,583		823		92		82		71		1,515
Others		1,572		333		67		119		29		1,024
Total		19,696	P	13,602	P	1,727	P	570	P	451	P	3,346
Less allowance for impairment losses		1,425										
Net	P	18,271										

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	As of June 30, 2022	As of December 31, 2021
Liquidity:		
Current Ratio	1.71	1.49
Quick Ratio	0.96	0.81
Solvency:		
Debt to Equity Ratio	0.97	1.05
Asset to Equity Ratio	1.97	2.05
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	20.98%	22.51%
Interest Rate Coverage Ratio	16.21	13.14
Return on Assets	10.83%	10.95%

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Operating Efficiency:		
Volume Growth	9.00%	9.00%
Revenue Growth	17.26%	19.52%
Operating Margin	15.43%	15.70%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets – Inventory – Current Portion of Biological Assets - Prepayments}}{\text{Current Liabilitiies}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$

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

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