CR03290-2021

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
   Mar 31, 2021
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 31Mar21 (IN MIL PESO)	137,353

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	Mar 31, 2021
Currency (indicate units, if applicable)	Php (In Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Mar 31, 2021	Dec 31, 2020
Current Assets	102,164	103,040
Total Assets	273,327	276,282
Current Liabilities	65,282	84,309
Total Liabilities	137,353	144,463
Retained Earnings/(Deficit)	73,935	69,735

Stockholders' Equity	135,974	131,819
Stockholders' Equity - Parent	86,878	82,406
Book Value per Share	14.7	13.95

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	76,362	69,018	76,362	69,018
Gross Expense	63,793	60,375	63,793	60,375
Non-Operating Income	128	248	128	248
Non-Operating Expense	757	781	757	781
Income/(Loss) Before Tax	11,940	8,110	11,940	8,110
Income Tax Expense	2,261	2,284	2,261	2,284
Net Income/(Loss) After Tax	9,679	5,826	9,679	5,826
Net Income Attributable to Parent Equity Holder	6,551	3,658	6,551	3,658
Earnings/(Loss) Per Share (Basic)	1.11	0.58	1.11	0.58
Earnings/(Loss) Per Share (Diluted)	1.11	0.58	1.11	0.58

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	2.6	2.93
Earnings/(Loss) Per Share (Diluted)	2.6	2.93

Other Relevant Information

Please see attached SEC Form 17-Q (Quarterly Report) of the Company for the period ended March 31, 2021, submitted to the Securities and Exchange Commission via email at ictdsubmission@sec.gov.ph on May 14, 2021.

Filed on behalf by:

Name	Alexandra Trillana
Designation	Corporate Secretary and Compliance Officer

SEC COPY

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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	M	E	T	R	O		M	A	N	I	L	A							

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 5 317-5450

Company Telephone Number

SEC Form

		1	7	-	Q		

Month Day

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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 **March 31, 2021**

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 March 31, 2021)
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)	**P137,353**

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 Company", formerly San Miguel Pure Foods Company Inc.) and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2021 (with comparative figures as of December 31, 2020 and for the period ended March 31, 2020) 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 May 14, 2021

Annex "A"

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
As at March 31, 2021 and December 31, 2020 and
For the Periods Ended March 31, 2021 and 2020

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2021 AND DECEMBER 31, 2020
(In Millions)

	Note	**2021 Unaudited**	2020 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 9*	**P43,903**	P37,013
Trade and other receivables - net	*6, 8, 9*	**15,044**	20,032
Inventories		**32,281**	35,393
Current portion of biological assets - net		**3,261**	3,401
Prepaid expenses and other current assets	*6, 8, 9*	**7,675**	7,201
Total Current Assets		**102,164**	103,040
Noncurrent Assets			
Investments	*8, 9*	**4,906**	4,859
Property, plant and equipment - net	*4*	**85,894**	84,624
Right-of-use assets - net		**4,674**	4,824
Investment property - net		**2,947**	2,951
Biological assets - net of current portion		**2,113**	2,352
Goodwill - net		**996**	996
Other intangible assets - net		**39,485**	39,538
Deferred tax assets		**2,004**	2,857
Other noncurrent assets - net	*6, 8, 9*	**28,144**	30,241
Total Noncurrent Assets		**171,163**	173,242
		P273,327	P276,282
LIABILITIES AND EQUITY			
Current Liabilities			
Loans Payable	*6, 8, 9*	**P7,630**	P10,780
Trade payables and other current liabilities	*6, 8, 9*	**50,629**	54,438
Lease liabilities - current portion	*8, 9*	**322**	379
Income and other taxes payable		**6,457**	6,044
Dividends payable		**63**	47
Current maturities of long-term debt - net of debt issue costs	*8, 9*	**181**	12,621
Total Current Liabilities		**65,282**	84,309
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*8, 9*	**66,390**	P54,478
Deferred tax liabilities		**26**	26
Lease liabilities – net of current portion	*8, 9*	**4,337**	4,403
Other noncurrent liabilities	*8, 9*	**1,318**	1,247
Total Noncurrent Liabilities		**72,071**	60,154

Forward

CERTIFIED CORRECT:

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

	2021 Unaudited	2020 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)**	(328,273)
Equity reserves	**(1,953)**	(1,745)
Retained earnings:		
Appropriated	**28,613**	28,613
Unappropriated	**45,322**	41,122
Treasury stock	**(30,182)**	(30,182)
	86,878	82,406
Non-controlling Interests	**49,096**	49,413
Total Equity	**135,974**	131,819
	P273,327	P276,282

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.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions, Except Per Share Data)

	Note	**2021 Unaudited**	2020 Unaudited
SALES	*3*	**P76,362**	P69,018
COST OF SALES		**52,913**	48,934
GROSS PROFIT		**23,449**	20,084
SELLING AND ADMINISTRATIVE EXPENSES		**(10,880)**	(11,441)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(883)**	(819)
INTEREST INCOME		**127**	248
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		**1**	-
OTHER INCOME - Net		**126**	38
INCOME BEFORE INCOME TAX		**11,940**	8,110
INCOME TAX EXPENSE		**2,261**	2,284
NET INCOME		**P9,679**	P5,826
Attributable to:			
Equity holders of the Parent Company		**P6,551**	P3,658
Non-controlling interests		**3,128**	2,168
		P9,679	P5,826
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*7*	**P1.11**	P0.58

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.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions)

	2021 Unaudited	2020 Unaudited
NET INCOME	**P9,679**	P5,826
OTHER COMPREHENSIVE LOSS		
Items that will not be reclassified to profit or loss		
Share in other comprehensive loss of joint ventures	**(4)**	(41)
Remeasurement loss on reserve for retirement plan	**(104)**	(11)
Income tax expense	**(73)**	-
	(181)	(52)
Items that may be reclassified to profit or loss		
Loss on exchange differences on translation of foreign operations	**(84)**	(967)
	(84)	(967)
OTHER COMPREHENSIVE LOSS - Net of tax	**(265)**	(1,019)
TOTAL COMPREHENSIVE INCOME - Net of tax	**P9,414**	P4,807
Attributable to:		
Equity holders of the Parent Company	**P6,375**	P3,243
Non-controlling interests	**3,039**	1,564
	P9,414	P4,807

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
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(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, 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 loss of joint ventures		-	-	-	-	-	-	(3)	-	-	-	-	-	(3)	(1)	(4)
Remeasurement loss on reserve for retirement plan		-	-	-	-	(119)	-	-	-	-	-	-	-	(119)	(58)	(177)
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	(54)	-	-	-	-	-	(54)	(30)	(84)
Other comprehensive loss		-	-	-	-	(119)	-	(57)	-	-	-	-	-	(176)	(89)	(265)
Net income		-	-	-	-	-	-	-	-	-	6,551	-	-	6,551	3,128	9,679
Total comprehensive income (loss)		-	-	-	-	(119)	-	(57)	-	-	6,551	-	-	6,375	3,039	9,414
Share issuance costs and others		-	-	-	-	-	-	-	-	-	13	-	-	13	(2)	11
Net addition (reduction) to non-controlling interests		-	-	-	480	(31)	-	(1)	-	-	-	-	-	448	(1,448)	(1,000)
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(2,364)	-	-	(2,364)	(1,906)	(4,270)
As at March 31, 2021 (Unaudited)		P5,951	P300	P366,620	(P327,793)	(P1,790)	P10	(P96)	(P77)	P28,613	P45,322	(P182)	(P30,000)	P86,878	P49,096	P135,974

Forward

CERTIFIED CORRECT:

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

	Note	Capital Stock Common	Capital Stock Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Equity Reserves: Reserve for Retirement Reserve	Equity Reserves: Fair Value Reserve	Equity Reserves: Translation Reserve	Equity Reserves: Other Equity Reserve	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Treasury Stock Common	Treasury Stock Preferred	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company														
As at January 1, 2020 (Audited)		P5,951	P300	P366,620	(P328,273)	(P1,728)	P12	P507	(P77)	P22,874	P44,089	(P182)	(P15,000)	P95,093	P48,088	P143,181
Share in other comprehensive loss of joint ventures		-	-	-	-	-	-	(28)	-	-	-	-	-	(28)	(13)	(41)
Remeasurement loss on reserve for retirement plan		-	-	-	-	(2)	-	-	-	-	-	-	-	(2)	(9)	(11)
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	(385)	-	-	-	-	-	(385)	(582)	(967)
Other comprehensive loss		-	-	-	-	(2)	-	(413)	-	-	-	-	-	(415)	(604)	(1,019)
Net income		-	-	-	-	-	-	-	-	-	3,658	-	-	3,658	2,168	5,826
Total comprehensive income (loss)		-	-	-	-	(2)	-	(413)	-	-	3,658	-	-	3,243	1,564	4,807
Share issuance costs		-	-	-	-	-	-	-	-	-	(37)	-	-	(37)	(1)	(38)
Redemption of preferred stock		-	-	-	-	-	-	-	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Cash dividends declared	5	-	-	-	-	-	-	-	-	-	(2,576)	-	-	(2,576)	(1,915)	(4,491)
As at March 31, 2020 (Unaudited)		P5,951	P300	P366,620	(P328,273)	(P1,730)	P12	P94	(P77)	P22,874	P45,134	(P182)	(P30,000)	P80,723	P47,736	P128,459

CERTIFIED CORRECT:

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

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions)

	Note	**2021 Unaudited**	2020 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P11,940**	P8,110
Adjustments for:			
Depreciation and amortization	*4*	**2,894**	2,824
Interest expense and other financing charges		**883**	819
Retirement costs		**316**	326
Provision for impairment losses on receivables and write-down of inventories		**442**	115
Gain on sale of investments and property and equipment		**(1)**	-
Gain on fair valuation of agricultural produce		**(31)**	(9)
Interest income		**(127)**	(248)
Other charges net of loss on derivative transactions		**67**	100
Operating income before working capital changes		**16,383**	12,037
Decrease (increase) in:			
Trade and other receivables		**5,044**	4,992
Inventories		**3,053**	(1,799)
Biological assets		**140**	30
Prepaid expenses and other current assets		**(636)**	429
Decrease in trade payables and other current liabilities		**(4,209)**	(1,539)
Cash generated from operations		**19,775**	14,150
Income taxes paid		**(355)**	(709)
Interest paid		**(1,687)**	(748)
Contributions paid		**(105)**	(8)
Interest received		**134**	279
Net cash flows provided by operating activities		**17,762**	12,964
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and investment property	*4*	**(2,452)**	(2,930)
Decrease (Increase) in biological assets, intangible assets and other noncurrent assets		**521**	(2,898)
Proceeds from sale of investments and property and equipment		**66**	1
Net cash flows used in investing activities		**(1,865)**	(5,827)

Forward

CERTIFIED CORRECT:

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

	2021 Unaudited	2020 Unaudited
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	**P23,302**	P36,000
Long-term borrowings	**11,910**	14,812
Payments of:		
Short-term borrowings	**(26,450)**	(38,551)
Long-term borrowings	**(12,462)**	(59)
Redemption of outstanding preferred shares	**-**	(15,000)
Decrease in non-controlling interest and others	**(996)**	-
Cash dividends paid	**(4,254)**	(4,454)
Payment of lease liabilities	**(142)**	(169)
Payment of share issuance costs	**11**	(38)
Net cash flows used in financing activities	**(9,081)**	(7,459)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**74**	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,890**	(313)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**37,013**	36,451
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P43,903**	P36,138

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.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data)

1. Reporting Entity

San Miguel Food and Beverage, Inc. (SMFB or the “Parent Company”, 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.

2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended March 31, 2021 and comparative financial statements for the same period in 2020 following the new 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 May 5, 2021.

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 2021

The Group has adopted the following PFRS effective January 1, 2021 and accordingly, changed its accounting policies in the following areas:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts,* and PFRS 16, *Leases*). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

    - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

    - *Relief from Specific Hedge Accounting Requirements*. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

    - *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments apply retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

The amendments are still subject to the approval by the FRSC.

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

Standards Issued But Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, Leases) beyond June 30, 2021. The optional practical expedient introduced in the 2020 amendments that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 and which solely applies to reduction in lease payments originally due on or before June 30, 2021 has been extended to June 30, 2022. The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond June 30, 2021.

  The 2021 amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are applied retrospectively with the cumulative effect of initially applying it being recognized in opening retained earnings. Early application by the lessee is permitted.

- 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.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- 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 comprise both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards:

  - Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). 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). 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*.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or 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 amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. Earlier application is permitted.

- 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 the company 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 a company'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.

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

  Under PFRS 17, groups of insurance contracts are measured based on 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.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

- 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.

- 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 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.

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 International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Segment Information

Operating Segments

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

The Group has three reportable segments, namely: Food, Beer and Non-alcoholic Beverages (NAB), and Spirits. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Food segment is engaged in (i) the processing and marketing of branded value-added refrigerated processed meats 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. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in the consolidation.

Financial information about reportable segments follows:

	Food**		Beer and NAB		Spirits		Total Reportable Segments		Eliminations		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Sales												
External sales	**P36,180**	P33,161	**P28,845**	P28,404	**P11,337**	P7,453	**P76,362**	P69,018	**P-**	P-	**P76,362**	P69,018
Inter-segment sales	**-**	-	**1**	-	**1**	-	**2**	-	**2**	-	**-**	-
Total sales	**P36,180**	P33,161	**P28,846**	P28,404	**P11,338**	P7,453	**P76,364**	P69,018	**P2**	P-	**P76,362**	P69,018
Results												
Segment results*	**P4,527**	P2,572	**P6,751**	P5,383	**P1,290**	P686	**P12,568**	P8,641	**P1**	P2	**P12,569**	P8,643

**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	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Timing of Revenue Recognition								
Sales recognized at point in time	**P36,175**	P33,158	**P28,845**	P28,404	**P11,337**	P7,453	**P76,357**	P69,015
Sales recognized over time	**5**	3	**-**	-	**-**	-	**5**	3
Total external sales	**P36,180**	P33,161	**P28,845**	P28,404	**P11,337**	P7,453	**P76,362**	P69,018

4. Property, Plant and Equipment

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

March 31, 2021 and December 31, 2020

	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, 2020 (Audited)	P15,807	P27,970	P75,114	P4,353	P877	P22,802	P146,923
Additions	47	37	135	77	15	13,521	13,832
Disposals	(5)	(37)	(570)	(595)	(3)	-	(1,210)
Reclassifications	589	4,897	9,555	222	216	(15,780)	(301)
Currency translation adjustments	(67)	(137)	(281)	(28)	-	(1)	(514)
December 31, 2020 (Audited)	16,371	32,730	83,953	4,029	1,105	20,542	158,730
Additions	-	5	20	2	-	2,425	2,452
Disposals	-	(28)	(4)	(19)	(2)	16	(37)
Reclassifications	28	664	400	(32)	11	(1,102)	(31)
Currency translation adjustments	(38)	17	3	(3)	-	-	(21)
March 31, 2021 (Unaudited)	**16,361**	**33,388**	**84,372**	**3,977**	**1,114**	**21,881**	**161,093**
Accumulated Depreciation and Amortization							
January 1, 2020 (Audited)	1,254	9,673	44,039	3,179	332	-	58,477
Depreciation and amortization	172	841	2,907	365	70	-	4,355
Disposals	(5)	(36)	(532)	(589)	(3)	-	(1,165)
Reclassifications	(13)	(68)	(9)	3	(29)	-	(116)
Currency translation adjustments	(6)	(84)	(214)	(23)	-	-	(327)
December 31, 2020 (Audited)	1,402	10,326	46,191	2,935	370	-	61,224
Depreciation and amortization	54	230	805	91	23	-	1,203
Disposals	(28)	-	(3)	(18)	(1)	-	(50)
Reclassifications	-	(24)	(3)	(43)	(2)		(72)
Currency translation adjustments	(3)	3	(35)	(5)	-	-	(40)
March 31, 2021 (Unaudited)	**1,425**	**10,535**	**46,955**	**2,960**	**390**	**-**	**62,265**
Accumulated Impairment Losses							
January 1, 2020 (Audited)	-	3,100	9,720	88	1	-	12,909
Impairment	-	-	-	-	-	-	-
Disposals	-	-	(11)	(3)	-	-	(14)
Reclassifications	-	-	(1)	(4)	-	-	(5)
Currency translation adjustments	-	27	(33)	(2)	-	-	(8)
December 31, 2020 (Audited)	-	3,127	9,675	79	1	-	12,882
Reclassifications	-	-	-	(3)	-	-	(3)
Currency translation adjustments	-	12	43	-	-	-	55
March 31, 2021 (Unaudited)	**-**	**3,139**	**9,718**	**76**	**1**	**-**	**12,934**
Carrying Amount							
December 31, 2020 (Audited)	P14,969	P19,277	P28,087	P1,015	P734	P20,542	P84,624
March 31, 2021 (Unaudited)	**P14,936**	**P19,714**	**P27,699**	**P941**	**P723**	**P21,881**	**P85,894**

March 31, 2020	**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, 2019 (Audited)	P14,600	P23,613	P66,573	P3,957	P1,100	P20,993	P130,836
Additions	1,088	5,161	9,209	1,463	277	1,166	18,364
Disposals	(1)	(19)	(492)	(1,057)	(24)	-	(1,593)
Reclassifications	78	(475)	571	5	(475)	644	348
Currency translation adjustments	42	(310)	(747)	(15)	(1)	(1)	(1,032)
December 31, 2019 (Audited)	15,807	27,970	75,114	4,353	877	22,802	146,923
Additions	-	1	2	3	-	2,412	2,418
Disposals	(3)	-	(19)	(14)	-	-	(36)
Reclassifications	439	1,715	2,722	36	100	(4,665)	347
Currency translation adjustments	(109)	(116)	(443)	(37)	-	(1)	(706)
March 31, 2020 (Unaudited)	**16,134**	**29,570**	**77,376**	**4,341**	**977**	**20,548**	**148,946**
Accumulated Depreciation and Amortization							
January 1, 2019 (Audited)	1,163	9,160	42,325	3,048	445	-	56,141
Depreciation and amortization	89	699	2,431	299	64	-	3,582
Disposals	(1)	(7)	(434)	(163)	(17)	-	(622)
Reclassifications	1	(76)	(4)	4	(158)	-	(233)
Currency translation adjustments	2	(103)	(279)	(9)	(2)	-	(391)
December 31, 2019 (Audited)	1,254	9,673	44,039	3,179	332	-	58,477
Depreciation and amortization	41	200	691	90	16	-	1,038
Disposals	(3)	-	(19)	(14)	-	-	(36)
Currency translation adjustments	(14)	(55)	(320)	(32)	-	-	(421)
March 31, 2020 (Unaudited)	**1,278**	**9,818**	**44,391**	**3,223**	**348**	**-**	**59,058**
Accumulated Impairment Losses							
January 1, 2019 (Audited)	-	3,137	9,551	72	1	-	12,761
Impairment	-	194	627	20	-	-	841
Disposals	-	-	(31)	(1)	-	-	(32)
Reclassifications	-	(73)	-	-	-	-	(73)
Currency translation adjustments	-	(158)	(427)	(3)	-	-	(588)
December 31, 2019 (Audited)	-	3,100	9,720	88	1	-	12,909
Currency translation adjustments	-	(40)	(83)	-	-	-	(123)
March 31, 2020 (Unaudited)	**-**	**3,060**	**9,637**	**88**	**1**	**-**	**12,786**
Carrying Amount							
December 31, 2019 (Audited)	P14,553	P15,197	P21,355	P1,086	P544	P22,802	P75,537
March 31, 2020 (Unaudited)	**P14,856**	**P16,692**	**P23,348**	**P1,030**	**P628**	**P20,548**	**P77,102**

Depreciation and amortization recognized in the consolidated statements of income amounted to P1,203 and P1,038 for the periods ended March 31, 2021 and 2020, respectively.

In 2020, property, plant and equipment of a hog farm was reclassified to “Other noncurrent assets - net” account due to the impact of the African Swine Fever that resulted in extended downtime of the facility.

5. Dividends

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

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**

2020

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	February 3, 2020	February 17, 2020	March 2, 2020	P0.40
Preferred FBP2	February 3, 2020	February 17, 2020	March 12, 2020	14.14225

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 March 31, 2021 and December 31, 2020:

	Year	**Revenue from Related Parties**	**Purchases from Related Parties**	**Amounts Owed by Related Parties**	**Amounts Owed to Related Parties**	**Terms**	**Conditions**
Intermediate Parent Company	**March 31, 2021**	**P40**	**P438**	**P110**	**P384**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	134	2,396	148	579		
Entities under Common Control	**March 31, 2021**	**270**	**5,967**	**689**	**10,668**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	890	26,286	658	11,486		
Joint Venture	**March 31, 2021**	**-**	**78**	**625**	**30**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2020	1	497	628	76		
Retirement Plan	**March 31, 2021**	**-**	**-**	**-**	**108**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	-	-	-	-		
Associate of the Intermediate Parent Company	**March 31, 2021**	**-**	**-**	**-**	**-**	Less than 3 months; interest bearing	Unsecured; no impairment
	December 31, 2020	1	-	1	-		
Shareholders in Subsidiaries and its Affiliates	**March 31, 2021**	**2**	**863**	**105**	**-**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2020	15	3,016	129	-		
Total	**March 31, 2021**	**P312**	**P7,346**	**P1,529**	**P11,190**		
Total	December 31, 2020	P1,041	P32,195	P1,564	P12,141		

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

b. 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.

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

d. Interest income from amounts owed by Thai San Miguel Liquor Co. Ltd., recognized in the consolidated statements of income, amounted to P19 as at December 31, 2020.

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:

	March 31	
	2021	2020
Net Income attributable to equity holders of the Parent Company	**P6,551**	P3,658
Less dividends on preferred shares for the period	**-**	212
Net income attributable to common shareholders of the Parent Company (a)	**P6,551**	P3,446
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)	**P1.11**	P0.58

As at March 31, 2021 and 2020, the Group 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:

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at fair value through other comprehensive income (FVOCI), 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 commodity 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:

March 31, 2021	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Fixed Rate					
Philippine peso-denominated	**P188**	**P7,628**	**P30,880**	**P20,342**	**P59,038**
Interest rate	**3.875% - 8.3480%**	**3.2837%-8.3480%**	**3.2837%-6.00%**	**3.2837%-5.25%**	
Floating Rate					
Philippine peso-denominated	**-**	**149**	**238**	**7,613**	**8,000**
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**	
	P188	**P7,777**	**P31,118**	**P27,955**	**P67,038**

December 31, 2020	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Fixed Rate					
Philippine peso-denominated	P12,629	P7,536	P20,943	P18,392	P59,500
Interest rate	4.2105% - 8.3480%	3.2837% - 8.3480%	3.2837% - 6.00%	3.2837% - 5.25%	
Floating Rate					
Philippine peso-denominated	-	-	-	8,000	8,000
Interest rate	-	-	-	BVAL + margin or BSP TDF overnight rate, whichever is higher	
	P12,629	P7,536	P20,943	P26,392	P67,500

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 P20 and P80 for the period ended March 31, 2021 and for the year ended December 31, 2020, 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:

	March 31, 2021		December 31, 2020	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$173**	**P8,415**	US$174	P8,353
Trade and other receivables	**24**	**1,155**	28	1,323
Noncurrent receivables	**-**	**10**	-	10
	197	**9,580**	202	9,686
Liabilities				
Loans Payable	**2**	**97**	2	96
Trade payables and other current liabilities	**92**	**4,469**	125	5,990
Lease liabilities	**-**	**21**		16
	94	**4,587**	127	6,102
Net Foreign Currency-denominated Monetary Assets	**US$103**	**P4,993**	US$75	P3,584

The Group reported net gain (loss) on foreign exchange amounting to P14 and P30 for the periods ended March 31, 2021 and 2020, 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
March 31, 2021	**48.53**
December 31, 2020	48.02
March 31, 2020	50.68
December 31, 2019	50.64

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
March 31, 2021	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P16)**	**(P169)**	**P16**	**P169**
Trade and other receivables	**-**	**(24)**	**-**	**24**
	(16)	**(193)**	**16**	**193**
Loans Payable	**-**	**2**	**-**	**(2)**
Trade payables and other current liabilities	**35**	**82**	**(35)**	**(82)**
	35	**84**	**(35)**	**(84)**
	P19	**(P109)**	**(P19)**	**P109**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2020	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	(P27)	(166)	P27	P166
Trade and other receivables	-	(27)	-	27
	(27)	(193)	27	193
Loans Payable	-	2	-	(2)
Trade payables and other current liabilities	63	106	(63)	(106)
	63	108	(63)	(108)
	P36	(P85)	(P36)	P85

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 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.

March 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	**P43,903**	**P43,903**	**P43,903**	**P -**	**P -**	**P -**
Trade and other receivables - net	**15,044**	**15,044**	**15,044**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**105**	**105**	**105**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Investments" account)	**4,906**	**4,906**	**-**	**-**	**-**	**4,906**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**223**	**223**	**-**	**88**	**82**	**53**
Financial Liabilities						
Loans payable	**7,630**	**7,640**	**7,640**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding derivative liabilities)	**50,597**	**50,597**	**50,597**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**32**	**32**	**32**	**-**	**-**	**-**
Long-term debt (including current maturities)	**66,571**	**80,927**	**3,143**	**9,755**	**37,680**	**30,349**
Lease liabilities (including current portion)	**4,659**	**12,230**	**722**	**576**	**1,429**	**9,503**
Other non-current liabilities	**71**	**71**	**-**	**55**	**7**	**9**

December 31, 2020	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	P37,013	P37,013	P37,013	P -	P -	P -
Trade and other receivables - net	20,032	20,032	20,032	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	172	172	172	-	-	-
Financial assets at FVOCI (included under "Investments" account)	4,855	4,855	-	-	-	4,855
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	226	226	-	93	83	50
Financial Liabilities						
Loans payable	10,780	10,794	10,794	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	54,414	54,414	54,414	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account)	24	24	24	-	-	-
Long-term debt (including current maturities)	67,099	79,650	15,283	9,295	26,564	28,508
Lease liabilities (including current portion)	4,782	12,205	715	505	1,370	9,615
Other non-current liabilities	78	78	-	62	7	9

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.

	March 31 2021	December 31 2020
Cash and cash equivalents (excluding cash on hand)	**P43,782**	P36,358
Trade and other receivables - net	**15,044**	20,032
Derivative assets	**105**	172
Financial assets at FVOCI	**4,906**	4,855
Noncurrent receivables and deposits - net	**223**	226
	P64,060	P61,643

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.

	March 31, 2021					
	Financial Assets at Amortized Cost					
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P43,782**	**P -**	**P -**	**P -**	**P -**	**P43,782**
Trade and other receivables - net	**15,044**	**-**	**1,562**	**-**	**-**	**16,606**
Derivative assets	**-**	**-**	**-**	**105**	**-**	**105**
Financial assets at FVOCI	**-**	**-**	**-**	**-**	**4,906**	**4,906**
Noncurrent receivables and deposits - net	**-**	**223**	**42**	**-**	**-**	**265**
Total	**P58,826**	**P223**	**P1,604**	**P105**	**P4,906**	**P65,664**

December 31, 2020	Financial Assets at Amortized Cost 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P36,358	P -	P -	P -	P -	P36,358
Trade and other receivables - net	20,032	-	1,554	-	-	21,586
Derivative assets	-	-	-	172	-	172
Financial assets at FVOCI	-	-	-	-	4,855	4,855
Noncurrent receivables and deposits - net	-	226	42	-	-	268
	P56,390	P226	P1,596	P172	P4.855	P58,384

The aging of receivables is as follows:

March 31, 2021	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P10,316**	**P692**	**P262**	**P11,270**
Past due:				
1-30 days	**1,594**	**103**	**34**	**1,731**
31-60 days	**260**	**138**	**70**	**468**
61-90 days	**141**	**61**	**59**	**261**
Over 90 days	**1,200**	**694**	**982**	**2,876**
	P13,511	**P1,688**	**P1,407**	**P16,606**

December 31, 2020	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P13,784	P724	P340	P14,848
Past due:				
1-30 days	2,588	233	101	2,922
31-60 days	557	90	55	702
61-90 days	229	33	30	292
Over 90 days	1,186	731	905	2,822
	P18,344	P1,811	P1,431	P21,586

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

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

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

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

Financial Assets

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how employees of the business are compensated; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

- contingent events that would change the amount or timing of cash flows;

- terms that may adjust the contractual coupon rate, including variable rate features;

- prepayment and extension features; and

- terms that limit the Group's claim to cash flows from specified assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has no investment in debt securities.

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

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

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

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

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

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

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

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

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

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

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

The Group’s liabilities arising from its trade or borrowings such as Loans Payable, trade payables and other current liabilities, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

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

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

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

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

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

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

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

- deliver cash or another financial asset to another entity;

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2021		December 31, 2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P43,903**	**P43,903**	P37,013	P37,013
Trade and other receivables - net	**15,044**	**15,044**	20,032	20,032
Derivative assets (included under "Prepaid expenses and other current assets" account)	**105**	**105**	172	172
Financial assets at FVOCI (included under "Investments" account)	**4,906**	**4,906**	4,855	4,855
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**223**	**223**	226	226
Financial Liabilities				
Loans payable	**7,630**	**7,630**	10,780	10,780
Trade payables and other current liabilities (excluding derivative liabilities)	**50,597**	**50,597**	54,414	54,414
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**32**	**32**	24	24
Long-term debt (including current maturities)	**66,571**	**69,163**	67,099	72,007
Lease liabilities (including current portion)	**4,659**	**4,680**	4,782	4,802
Other noncurrent liabilities	**71**	**71**	78	78

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 March 31, 2021 and December 31, 2020, discount rates used ranges from 1.03% to 4.25% and from 1.11% to 2.31% respectively.

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

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

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

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

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

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

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

Freestanding derivatives consist of interest rate, currency and commodity derivatives entered into by the Group.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at March 31, 2021 and December 31, 2020, the total outstanding notional amount of such embedded currency forwards amounted to US$195, and US$126, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive fair value of these embedded currency forwards amounted to P73 and P148 as at March 31, 2021, and December 31, 2020, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P52) and P27 for the periods ended March 31, 2021 and 2020, respectively.

Fair Value Changes on Derivatives

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

	March 31, 2021	December 31, 2020
Balance at beginning of year	**P148**	P113
Net change in fair value of derivatives	**(52)**	442
	96	555
Less fair value of settled instruments	**(23)**	(407)
Balance at end of year	**P73**	P148

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

	March 31, 2021			December 31, 2020		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P-**	**P105**	**P105**	P -	P172	P172
Financial assets at FVOCI	**4,906**	**-**	**4,906**	4,855	-	4,855
Financial Liabilities						
Derivative liabilities	**-**	**32**	**32**	-	24	24

The Group has no financial instruments valued based on Level 3 as at March 31, 2021 and December 31, 2020. For the period ended March 31, 2021 and for the year ended December 31, 2020, 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. One of the key provisions of the CREATE Law is an immediate 5%-10% point cut in the corporate income tax rate starting July 2020. As a result, the Group has taken up in the books the effect of the application of reduced corporate income tax rate from 30% to 25%.

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

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

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

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

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

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 are 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 ended March 31, 2021.

h. The Group’s material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at end of March 31, 2021. 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.

12. Events After the Reporting Date

a. On May 5, 2021, the BOD of the Parent Company declared cash dividends to all common shareholders of record as of May 20, 2021 amounting to P0.40 per common share. Cash dividends for common shares is payable on June 4, 2021.

Annex "B"

SAN MIGUEL
FOOD AND BEVERAGE, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Food and Beverage, Inc. ("SMFB" or "the Company", formerly San Miguel Pure Foods Company Inc.) and its subsidiaries (collectively, referred to as the "Group") as of and for the period ended March 31, 2021 (with comparative figures as of December 31, 2020 and for the period ended March 31, 2020). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2021, 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 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 and hereinafter referred to as "Prepared and Packaged Food"); (ii) the production and sale of feeds (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, food services, franchising and international operations (collectively referred to as "Others").

I. FINANCIAL PERFORMANCE

Three months ended March 31, 2021 compared to three months ended March 31, 2020

The Group's performance for the first quarter of 2021 reflects the impact of the Coronavirus Disease – 2019 (COVID-19) pandemic, and the Group's efforts to continuously adapt to evolving market opportunities and challenges.

The consolidated sales for the three months ended March 31, 2021 amounted to P76,362 million, 11% higher compared to the same period in 2020, while the consolidated net income amounted P9,679 million, 66% higher than in the same period in 2020. This is attributable to the strength of the Group's brands across all business segments.

Sales
The consolidated sales increased by 11%, from P69,018 million for the three months ended March 31, 2020 to P76,362 million for the same period in 2021. Sales in the Beer and NAB Segment increased by 2%, from P28,404 million in 2020 to P28,845 million in 2021, sales in the Spirits Segment increased by 52%, from P7,453 million in 2020 to P11,337 million in 2021, and sales in the Food Segment increased by 9%, from P33,161 million in 2020 to P36,180 million in 2021. The increase was mainly due to higher sales of the Group.

Cost of Sales
The consolidated cost of sales increased by 8%, from P48,934 million for the three months ended March 31, 2020 to P52,913 million for the same period in 2021. Cost of sales in the Beer and NAB Segment decreased by 2%, from P18,151 million in 2020 to P17,872 million in 2021, cost of sales in the Spirits Segment increased by 57%, from P5,540 million in 2020 to P8,692 million in 2021, and cost of sales in the Food Segment increased by 4%, from P25,243 million in 2020 to P26,349 million in 2021. The increase was primarily due to the higher sales volume of the Food and Spirits Segments, and higher excise taxes which was partially offset by the decline in sales volume of the Beer and NAB Segment.

The table summarizes the cost of sales for the three months ended March 31, 2021:

	Beer and NAB	Spirits	Food	Total
Inventories	P2,555	P4,108	P22,719	P29,382
Excise tax	13,782	4,225	-	18,007
Labor	412	75	433	920
Others	1,123	284	3,197	4,604
	P17,872	P8,692	P26,349	P52,913

Gross profit
The consolidated gross profit increased by 17%, from P20,084 million for the three months ended March 31, 2020 to P23,449 million for the same period in 2021. The increase was driven primarily by the increase in sales volume in the Food and Spirits Segments.

Selling and Administrative Expenses
The consolidated selling and administrative expenses decreased by 5%, from P11,441 million for the three months ended March 31, 2020 to P10,880 million for the same period in 2021. Selling and administrative expenses in the Beer and NAB Segment decreased by 13%, from P4,868 million in 2020 to P4,221 million in 2021, selling and administrative expenses in the Spirits Segment increased by 10%, from P1,227 million in 2020 to P1,355 million in 2021, and selling and administrative expenses in the Food Segment decreased by 1%, from P5,346 million in 2020 to P5,304 million in 2021 (includes other administrative expenses of the Parent Company amounting to P6 million). The decrease was primarily due to the decrease in freight, trucking ang handling costs and advertising and promotion expenses of the Beer and NAB Segment, which was offset to some extent by the higher operating costs of the Spirits Segments.

Interest Expense and Other Financing Charges

The consolidated interest expense and other financing charges increased by 8%, from P819 million for the three months ended March 31, 2020 to P883 million for the same period in 2021. The increase was mainly due to the interest recognized on the P15 billion bonds of the Parent Company, partially offset by decrease in interest expense of the Spirits Segment due to settlement of loans in 2020.

Interest Income
The consolidated interest income decreased by 49%, from P248 million for the three months ended March 31, 2020 to P127 million for the same period in 2021. The decrease was primarily due to lower average level of money market placements of the Beer and NAB Segment in 2021.

Other Income - Net
The Group recognized a consolidated other income amounting to P126 million for the three months ended March 31, 2021 compared to the consolidated other income of P38 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 47%, from P8,110 million for the three months ended March 31, 2020 to P11,940 million for the same period in 2021.

Income Tax Expense
The income tax expense decreased slightly by 1%, from P2,284 million for the three months ended March 31, 2020 to P2,261 million for the same period in 2021. This decrease was primarily due to the lower tax rates from the implementation of Republic Act No. 11534 also known as Corporate Recovery and Tax Incentives for Enterprise Act (CREATE Law) this year 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 66%, from P5,826 million for the three months ended March 31, 2020 to P9,679 million for the same period in 2021. Net income of the Beer and NAB Segment increased by 45%, from P3,772 million in 2020 to P5,458 million in 2021, while net income of the Spirits Segment increased by 120%, from P474 million in 2020 to P1,042 million in 2021. The Food Segment recognized a net income amounting to P3,179 million (inclusive of other administrative expenses of the Parent Company) in 2021 compared to the net income of P1,580 million for the same period in 2020.

Net Income after Tax and Minority Interest
Further as a result of the foregoing, SMFB's consolidated net income after tax and minority interest increased by 79%, from P3,658 million for the three months ended March 31, 2020 to P6,551 million for the same period in 2021. Net income after tax and minority interest of the Beer and NAB Segment increased by 47%, from P1,874 million in 2020 to P2,748 million in 2021, net income after tax and minority interest of the Spirits Segment increased by 145%, from P322 million in 2020 to P790 million in 2021, and net income after tax and minority interest of the Food Segment increased from P1,462 million in 2020 to P3,013 million (inclusive of other administrative expenses of the Parent Company) in 2021.

Business Highlights for the period ended March 31, 2021

Beer and NAB
The Beer and NAB Segment still managed to post a 2% increase in revenue to P28,845 million in 2021 versus 2020 revenue of P28,404 million. The growth in revenues was still attained despite the decrease in first quarter 2021 volumes as this was offset by the price increase implemented in the domestic operations in March 2020. Domestic operations contributed P26,294 million while international operations contributed US$52.9 million.

Cost of sales decreased by 2% to P17,872 million primarily due to the lower sales volume of domestic operations despite the increase in excise tax rate implemented in January 2021. Domestic operations accounted for P16,426 million while international operations accounted for US$30.1 million.

Selling and administrative expenses decreased by 13% or by P647 million due to lower freight, trucking and handling costs and advertising and promotions expenses. Domestic operations accounted for P3,455 million while international operations accounted for US$15.9 million.

Consequently, income from operations increased by 25% to P6,752 million. Domestic operations contributed P6,413 million while international operations contributed US$7 million.

Interest income decreased by 70% or by P162 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 this year.

Other income for 2021 is higher by 27% or by P21 million primarily due to the dividend income of San Miguel Brewing International Limited (SMBIL) from its investment in redeemable perpetual securities.

Income tax expense decreased by 32% or by P455 million primarily due to the implementation of CREATE Law which reduced income tax rates from 30% to 25% effective July 2020.

Consolidated net income increased by 45% to P5,458 million. Domestic operations contributed P5,080 million while international operations contributed US$7.8 million.

SMBIL’s sales volume of 385 thousand hectoliters is 3.6% ahead of 2020 despite many of SMBIL’s international markets having implemented COVID-19-related restrictions only in March or April 2020. SMBIL’s consolidated operating income for the first quarter of 2021 was higher due to improved volumes, managed fixed costs and restructuring of operations in China.

SMBIL’s China operations was rationalized and consolidated to significantly improve profitability and efficiency. Excluding North China operations, which ceased in early 2020 and is undergoing liquidation, total volume was 5% better than last year. Meanwhile, with the expiry of the business term of, and the purposive non-renewal of the joint venture contract for, Guangzhou San Miguel Brewery Co., Ltd (GSMB), SMBIL transitioned the selling and distribution of the San Miguel and Dragon brands from GSMB in South China to San Miguel (Guangdong) Brewery Co., Ltd., which is the brewery that manufactures the products previously sold by GSMB. GSMB is also undergoing liquidation process.

SMBIL’s markets continued to go through varying degrees of lockdown restrictions and reopening in the first quarter of this year. Thailand sales volume was significantly lower than 2020’s mostly pre-COVID-19 months due to continuing restrictions on tourism in major destinations where San Miguel is particularly strong, coupled with the limited operations in on-premise outlets. Hong Kong operations registered only slightly lower volumes as the impact of the pandemic in the on-premise channels was offset by the growth in the modern trade off-premise and wholesaler channels. On the other hand, Indonesia registered higher volumes against the overall beer industry contraction in the country, and despite the continuing COVID-19 restrictions which started in March 2020. South China also registered significant growth as the on-premise channel started to reopen. In Vietnam, the strategy focus on the modern trade off-premise channel and small but many local outlets helped the Vietnam operations to gradually recover lost volumes from affected tourist-dependent outlets. SMBIL’s Exports business registered higher sales despite the pandemic due to the growth in off-premise volumes, particularly in United Arab Emirates, South Korea and some markets in Africa, partly offset by the decline in volumes from other countries as a result of continuing COVID-19- related restrictions.

Spirits

The Spirits Segment sustained its sales growth momentum in the first quarter of 2021 with consolidated revenue of P11,337 million, 52% ahead of 2020 levels, driven by the volume growth and price increase. Gross profit of P2,645 million is 38% higher than 2020 levels brought about by the improvement in second-hand bottle retrieval which led to reduction in bottle composite cost.

Operating expenses was 10% more than in 2020 due to higher advertising expenses brought about by the aggressive above-the-line advertising, together with higher personnel cost and repairs and maintenance.

Interest expense declined by 71% due to the decrease in short-term and long-term debt. On the other hand, interest income increased by almost 8 times compared to interest income in the first quarter of 2020 as a result of higher money market placements.

Increased requirement on alcohol tolling and higher scrap sales resulted to a 114% hike in other income.

Income tax rate was lowered with the implementation of CREATE Law.

In the end, the Spirits Segment recognized a consolidated net income of P1,042 million, more than double of 2020 performance.

Food

The Food Segment is off to a strong start and posted consolidated revenues of P36,180 million for the first three months of 2021, climbing 9% against the same period in 2020. Revenues grew across all businesses on the back of higher volumes and better selling prices, despite the continuing operational challenges amidst the persisting COVID-19 pandemic.

Protein, consisting of the poultry and fresh meats businesses, sustained its strong recovery in the first quarter of 2021 and registered revenues of P16,622 million, 11% higher than 2020 levels driven by volume growth and improved selling prices. Average chicken selling prices improved compared to 2020 levels as the business kept poultry inventory at optimal levels throughout the quarter, coming from the aggressive inventory depletion program implemented in 2020. While sales to foodservice chains remained weak, active community resellers continued to deliver encouraging results which has 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 slow down production and sales of marketable hogs, curtailing ability of the business to deliver products to different parts of the country.

Animal Nutrition and Health business recorded revenues of P7,672 million, 13% higher than 2020's level on account of the continued strong demand for free range fowl feeds, layer, duck and aquatic feeds. Sales of free range fowl feeds grew by double-digit driven by increased breeding activities, boosted by the launch of a new product, Integra 3000 Plus®. 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 continued to be sluggish due to ASF. Similarly, volume growth of broiler feeds was limited by shortage of day-old broilers.

Prepared and Packaged Food business reported revenues of P9,797 million, 6% higher than in the same period in 2020, on account of increased sales volume, as well as better selling prices as a result of favorable sales mix. Continuing high velocity of in-home food consumption drove sales of premium-priced products such as Purefoods Tender Juicy® hotdog, SPAM®, Magnolia cheese, margarine and flour premix products. Newly-launched products such as Purefoods ready-to-eat meals, Purefoods seafood line, and Veega®, the business' first venture into plant-based food, were also well-received by the market and have contributed to volume growth.

The Food Segment's cost of sales increased to P26,353 million in the first quarter of 2021, 4% higher compared to the same period in 2020 mainly on account of higher sales volume, partly offset by favorable cost of some major raw materials.

Driven by the recovery of the Protein business, better selling prices, volume gains and cost breaks in some major raw materials, the Food Segment's gross profit rose to P9,827 million, 24% higher than in the first quarter of 2020.

Selling and administrative expenses of P5,294 million was contained at almost the same level of the first quarter of 2020 through continued cost reduction efforts and maximization of company-owned facilities.

As a result, the Food Segment's operating income jumped to P4,533 in the first quarter of 2021, an increase of 75% against that of the same period in 2020.

Three months ended March 31, 2020 compared to three months ended March 31, 2019

The Group's performance for the first quarter of 2020 was impacted by the COVID-19 pandemic.

The consolidated sales for the three months ended March 31, 2020 amounted to P69,018 million, 9% lower compared to the same period in 2019, while the consolidated net income amounted P5,826 million, 21% lower than in the same period in 2019. This is mainly attributed to lower sales volume of the Beer and NAB, and Spirits Segments.

Sales
The consolidated sales decreased by 9%, from P75,655 million for the three months ended March 31, 2019 to P69,018 million for the same period in 2020. Sales in the Beer and NAB Segment decreased by 18%, from P34,832 million in 2019 to P28,404 million in 2020, sales in the Spirits Segment decreased by 10%, from P8,265 million in 2019 to P7,453 million in 2020, and sales in the Food Segment increased by 2%, from P32,558 million in 2019 to P33,161 million in 2020. The decline was mainly due to lower sales volumes in the Beer and NAB Segment, and the Spirits Segment, while this was only slightly offset by the higher revenues of the Food Segment.

Cost of Sales
The consolidated cost of sales decreased by 9%, from P53,502 million for the three months ended March 31, 2019 to P48,934 million for the same period in 2020. Cost of sales in the Beer and NAB Segment decreased by 10%, from P20,103 million in 2019 to P18,151 million in 2020, cost of sales in the Spirits

Segment decreased by 8%, from P6,040 million in 2019 to P5,540 million in 2020, and cost of sales in the Food Segment decreased by 8%, from P27,359 million in 2019 to P25,243 million in 2020. The decrease was primarily due to the decline in sales volume across the Beer and NAB, and Spirits Segments, and lower prices of raw materials in the Food Segment, despite higher excise taxes for the Beer and NAB and Spirits Segments.

The table summarizes the cost of sales for the three months ended March 31, 2020:

	Beer and NAB	Spirits	Food	Total
Inventories	P2,868	P3,090	P21,594	P27,552
Excise tax	13,557	2,131	-	15,688
Labor	472	74	417	963
Others	1,254	245	3,232	4,731
	P18,151	P5,540	P25,243	P48,934

Gross profit

The consolidated gross profit decreased by 9%, from P22,153 million for the three months ended March 31, 2019 to P20,084 million for the same period in 2020. The decrease was driven primarily by the drop in sales volume in the Beer and NAB, and Spirits Segments.

Selling and Administrative Expenses

The consolidated selling and administrative expenses increased by 1%, from P11,343 million for the three months ended March 31, 2019 to P11,441 million for the same period in 2020. Selling and administrative expenses in the Beer and NAB Segment decreased by 6%, from P5,171 million in 2019 to P4,868 million in 2020, selling and administrative expenses in the Spirits Segment decreased by 1%, from P1,239 million in 2019 to P1,227 million in 2020, and selling and administrative expenses in the Food Segment increased by 8%, from P4,933 million in 2019 to P5,346 million in 2020 (includes other administrative expenses of the Parent Company amounting to P13 million). The increase was primarily due to the increase in contracted services costs and depreciation expense of the Food Segment, which was marginally offset by the lower operating costs of the Beer and NAB, and Spirits Segments.

Interest Expense and Other Financing Charges

The consolidated interest expense and other financing charges decreased by 3%, from P848 million for the three months ended March 31, 2019 to P819 million for the same period in 2020. The decrease was mainly due to the lower debt balance for the Beer and NAB Segment, but this was partially offset by the higher interest-bearing debt balance of the Food Segment in 2020.

Interest Income

The consolidated interest income decreased by 47%, from P468 million for the three months ended March 31, 2019 to P248 million for the same period in 2020. The decrease was primarily due to lower average level of money market placements of the Beer and NAB Segment in 2020.

Loss on Sale of Investments and Property and Equipment

There was no gain or loss on sale of investments and property and equipment for the first quarter of 2020 compared to the loss amounting to P8 million during the same period in 2019.

Other Income - Net

The Group recognized a consolidated other income amounting to P38 million for the three months ended March 31, 2020 compared to the consolidated other income of P22 million for the same period in 2019. The increase of 73% was primarily due to marked-to-market gains and foreign exchange gains resulting from the appreciation of the Philippine Peso against other foreign currencies.

Net Income before Income Tax

As a result of the foregoing, consolidated net income before income tax decreased by 22%, from P10,393 million for the three months ended March 31, 2019 to P8,110 million for the same period in 2020.

Income Tax Expense

The income tax expense decreased by 25% from P3,030 million for the three months ended March 31, 2019 to P2,284 million for the same period in 2020. This decrease was primarily due to the lower consolidated taxable income.

Net Income
As a result of the foregoing, SMFB's consolidated net income decreased by 21%, from P7,363 million for the three months ended March 31, 2019 to P5,826 million for the same period in 2020. Net income of the Beer and NAB Segment decreased by 44%, from P6,749 million in 2019 to P3,772 million in 2020, while net income of the Spirits Segment decreased by 23%, from P616 million in 2019 to P474 million in 2020. The Food Segment, however, recognized a net income amounting to P1,580 million (inclusive of other administrative expenses of the Parent Company) in 2020 compared to the net loss of P2 million for the same period in 2019.

Net Income after Tax and Minority Interest
Further as a result of the foregoing, SMFB's consolidated net income after tax and minority interest decreased by 4%, from P3,795 million for the three months ended March 31, 2019 to P3,658 million for the same period in 2020. Net income after tax and minority interest of the Beer and NAB Segment decreased by 44%, from P3,374 million in 2019 to P1,874 million in 2020, and net income after tax and minority interest of the Spirits Segment decreased by 22%, from P413 million in 2019 to P322 million in 2020, although net income after tax and minority interest of the Food Segment increased from P8 million in 2019 to P1,462 million (inclusive of other administrative expenses of the Parent Company) in 2020.

Business Highlights for the period ended March 31, 2020

Beer and NAB

For the first quarter of 2020, the domestic beer and non-alcoholic beverage volumes decreased by 24.7% versus 2019 performance. Despite lower volumes in January affected by the Taal Volcano eruption, sales rebounded by February as year-to-date beer volumes registered an increase of 2% compared to the same period in 2019, mainly due to the stock build-up in the trade in anticipation of the domestic beer operation's price increase on its beer products which was implemented on March 1, 2020.

The significant downturn came in the second half of March largely due to the liquor bans imposed by various local government units, economic slowdown, as well as the implementation of enhanced community quarantine (ECQ) in Luzon and varying degrees of community quarantines in Visayas and Mindanao as precautionary measures to contain the COVID 19 pandemic.

Given lower first quarter volumes, domestic revenues likewise fell to P25,752 million, 18.2% lower than last year. Nevertheless, operating income came in at P5,137 million supported by beer volumes from January to mid-March and lower fixed costs.

SMBIL registered 371.6 thousand hectoliters in consolidated volume for the first quarter of 2020, 20% lower than in 2019.

SMBIL's North China unit had already stopped operations and is currently undergoing closure process. Excluding the North China operations, total volume was at 367.9 thousand hectoliters, 8% behind last year. Most of the international markets where SMBIL operates were beginning to experience the early effects of the COVID-19 pandemic. However, export sales were 26% better than last year as the bookings for these orders came prior to the COVID-19 outbreak in many of the markets. Volume of the local brands declined by 28%, partly offset by the 9% increase in sales of the global San Miguel brands, mainly driven by the growth of Exports.

The Indonesia, Thailand and South China operations were the ones most severely affected by the pandemic. In South China, the first market to be struck by the pandemic, the government enforced total lockdowns and ordered temporary closure of manufacturing operations in January to February, although restrictions are slowly easing up. Thailand and Indonesia were initially affected by the drop in tourism in the months of January and February and eventually had their beer selling on-premise outlets temporarily shut down due to government-mandated restrictions in March. The Hongkong and Vietnam operations performed better than SMBIL's units in the other international markets with year-to-date volume behind last year by 1% and 10%, respectively. The Hong Kong operations was able to grow volumes in the modern trade off-premise and wholesaler channels to offset the drop in the on-premise channels brought about by the COVID-19 pandemic situation.

SMBIL's operating income for the first quarter of 2020 was lower by 35% at US$ 4.8 million, due to the shortfall in volumes.

Spirits

The Spirits Segment ended the first quarter of 2020 with consolidated revenues of P7,453 million, lower by 10% compared to the same period in 2019 due to the lower sales volume because of the liquor ban imposed during the ECQ brought about by the COVID-19 pandemic. Likewise, gross profit decreased by 14%.

Selling and administrative expenses decreased slightly by 1% on account of lower spending in advertising and promotion, delivery expenses and personnel costs.

Interest expense and other financing charges declined by over 30% due to partial settlement of both short term and long-term loans.

As a result, the first quarter performance registered a net income of P474 million, 23% lower than net income of P616 million in the equivalent period in 2019.

Food

The Food Segment registered revenues of P33,161 million for the first quarter of 2020, 2% higher than in the same period in 2019, as most of the businesses, except for Animal Nutrition and Health, posted increased revenues on account of better selling prices and improved product mix. The sales growth momentum for the first two months of 2020 was affected in March when the government imposed the ECQ in Luzon in a thrust to contain the spread of COVID-19. The ECQ resulted in the temporary closure of a good number of restaurants, fast food/pizza chains, hotels, and other similar establishments, significantly affecting demand for food service products. On the other hand, demand for essential goods and shelf-stable food products surged as consumers stocked up for in-home consumption.

Protein, comprising the poultry and fresh meats businesses, grew revenues by 3% to P14,950 million. Significant improvement in chicken prices compared to year ago level, driven by recovery of the poultry industry from the widespread glut caused by huge importation from the latter part of 2018 all the way to the first quarter of 2019, buoyed revenues to grow despite lower volume. Poultry sales in the first two months of 2020 was lower than the relatively high volume in the comparable period in 2019 from aggressive frozen chicken depletion to stabilize inventory level. Sales volume has further gone down with the implementation of ECQ, which resulted in a considerable drop in demand for poultry products as most food service outlets temporarily closed and as retail stores shortened operating hours. The declining number of wet market stalls due to observance of physical distancing during the ECQ also contributed to the volume dip. Meanwhile, the ASF outbreak, which started in the third quarter of 2019, continued to unfavorably affect demand for Monterey Meats.

Animal Nutrition and Health business posted revenues of P6,759 million, 14% lower than in the same period in 2019 as sales volume across most feed types dropped. Sales of hog feeds declined as backyard hog raisers continue to be reluctant in loading piglets due to lingering fears from the ASF. Sales volume of broiler feeds dropped on account of rationalization of unprofitable customized feeds for large farms, while sales volume of layer feeds also remained sluggish as commercial raisers deferred chick loading, affected by losses caused by the poultry industry glut in the equivalent period in 2019. Meanwhile, aquatic feeds experienced a slowdown in demand due to the Taal volcano eruption in January 2020. The implementation of ECQ in March has likewise affected sales and distribution of commercial feeds, given temporary closure of feed stores especially in Luzon, as well as delays in deliveries due to checkpoints and scarce transportation.

Prepared and Packaged Food business delivered revenues of P9,267 million, 16% higher compared to the same period in 2019 driven by increased sales volume, better selling prices and improved product mix. Pantry loading and panic buying of consumers during the initial weeks of the ECQ resulted in strong demand for shelf-stable food products such as refrigerated and canned processed meats, bread spreads, biscuits and 3-in-1 coffee. In particular, Purefoods Corned Beef, Purefoods Luncheon Meat, SPAM, and Purefoods Tender Juicy Hotdogs led the spike in sales during the period.

The Food Segment’s cost of sales at P25,256 million was 8% lower than in the comparable period in 2019 mainly due to cost breaks in some of the major raw materials such as corn, soybean meal, feed wheat, broiler, imported beef and anhydrous milkfat.

With the improvement of poultry selling prices and as costs of some raw materials softened due to slowing global demand, the Food Segment’s gross profit rose to P7,905 million, 52% higher than in the same period in 2019.

Selling and administrative expenses increased by 8% to P5,333 million as the Food Segment further expanded its distribution coverage and improved customer servicing. This also includes ECQ-related costs such as protective and sanitation supplies, meals, as well as special incentives for production, logistics and merchandising personnel who were asked to report to work during the ECQ period in order to sustain 24/7 supply chain operations of the Food Segment.

Amidst the challenges that beset the business in the last month of the quarter due to the COVID-19 pandemic, the Food Segment posted an operating income of P2,585 million, exclusive of head office costs, for the first three months of the year. This is a substantial turnaround from the profit contraction in the same period in 2019, primarily driven by recovery of chicken prices, improved product mix and favorable prices of major raw materials.

II. FINANCIAL POSITION

Financial Position as of March 31, 2021 vs December 31, 2020

Consolidated total assets as of March 31, 2021 amounted to P273,327 million, 1% or P2,955 million lower than December 31, 2020 level. The decrease was primarily due to collection of receivables from holiday sales, and a decrease in inventories. Consolidated total liabilities as of March 31, 2021 amounted to P137,353 million, 5% or P7,110 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 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 was higher by 19% or by P6,890 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 P4,988 million due to collection of receivables from peak season sales of the Beer and NAB, and Food Segments from December 2020.

Inventories decreased by 9% or by P3,112 million due to higher sales volume compared to production during the period.

Prepaid expenses and other current assets increased by 7% or by P474 million mainly due to higher input tax in the first quarter of 2021 and unused tax certificates.

Investments decreased due to discontinued recognition of share in other comprehensive loss of joint ventures.

Property, plant and equipment increased by 2% or by P1,270 million due to the expansion projects of the Beer and NAB, and Food Segments.

Right-of-use assets decreased by 3% or by P150 million mainly due to amortization.

Investment property slightly decreased by P4 million mainly due to depreciation.

Deferred tax assets decreased by 30% or by P853 million due to lower tax rates as an impact of the CREATE Law.

Loans payable decreased by 29% or by P3,150 million due to payments made by the Food Segment.

Lease liabilities decreased by 3% or by P123 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 increased by 7% or by P413 million due to the higher taxable income of the Group for the first quarter of 2021.

Dividends payable increased by 34% or by P16 million mainly due to the increase in unclaimed dividends payable of the Spirits Segment.

Other noncurrent liabilities increased by 6% or by P71 million due to the Food Segment's additional set-up of retirement costs for the first quarter of 2021.

Consolidated total equity as of March 31, 2021 amounted to P135,974 million, 3% or P4,155 million higher than December 31, 2020 level. The increase was primarily due to the net income amounting to P9,679 million less the dividends declared by the Group amounting P4,270 million during the period.

Financial Position as of March 31, 2020 vs December 31, 2019

Consolidated total assets as of March 31, 2020 amounted to P263,891 million, 1% or P2,076 million lower than December 31, 2019 level. The decrease was primarily due to collection of receivables from holiday sales, which was offset by an increase in inventory. Consolidated total liabilities as of March 31, 2020 amounted to P135,432 million, 10% or P12,646 million higher than December 31, 2019 level. The increase was primarily due to the availment of long-term debt via the issuance of peso retail bonds of P15 billion during the period, which was partially offset by the decline in loans payable.

Cash and cash equivalents was lower by 1% or by P313 million due to net proceeds from cash generated from operations which was used to partially finance the Group's expansion projects and working capital requirement.

Trade and other receivables decreased by 19% or by P4,693 million due to collection of receivables from peak season sales of the Beer and NAB, and Food Segments in December 2019.

Inventories increased by 5% or by P1,641 million due to the Beer and NAB Segment's increase in finished goods.

Prepaid expenses and other current assets decreased by 10% or by P747 million mainly due to lower input tax in the first quarter of 2020 compared to the quarter ended December 31, 2019.

Investments decreased by 35% or by P41 million due to share in other comprehensive loss of joint ventures.

Property, plant and equipment increased by 2% or by P1,565 million due to the expansion projects of the Beer and NAB, and Food Segments.

Right-of-use assets decreased by 4% or by P196 million mainly due to amortization.

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

Deferred tax assets decreased by 3% or by P68 million due to the Food Segment's recognition of lesser temporary deductible difference.

Loans payable decreased by 16% or by P2,573 million due to payments made by the Food and Spirits Segments.

Lease liabilities decreased by 3% or by P140 million due to payments made by the Group.

Income and other taxes payable decreased by 5% or by P302 million due to the Beer and NAB and Spirits Segments lower taxable income for the first quarter of 2020.

Dividends payable increased by 66% or by P27 million mainly due to the increase in unclaimed dividends payable of the Spirits Segment.

Other noncurrent liabilities increased by 7% or by P103 million due to the Food Segment's additional set-up of retirement costs for the first quarter of 2020.

Consolidated total equity as of March 31, 2020 amounted to P128,459 million, 10% or P14,722 million lower than December 31, 2019 level. The decrease was primarily due to the redemption of the peso preferred shares during the quarter which was offset by the net income amounting to P5,826 million less the dividends declared by the Group amounting P2,576 million during the period.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements for the periods ended March 31, 2021 and 2020 is shown below:

	2021	2020
	(in Millions)	
Net cash flows provided by operating activities	P17,762	P12,964
Net cash flows used in investing activities	(1,865)	(5,827)
Net cash flows used in financing activities	(9,081)	(7,459)

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:

	2021	2020
	(in Millions)	
Additions to property, plant and equipment and investment property	(P2,452)	(P2,930)
Decrease (Increase) in biological assets, intangible assets and other noncurrent assets	521	(2,898)
Proceeds from sale of investments and property, and equipment	66	1

Net cash used in financing activities consist of the following:

	2021	2020
	(in Millions)	
Proceeds from short-term and long-term borrowings	P35,212	P50,812
Payments of short-term and long-term borrowings	(38,912)	(38,610)
Cash dividends paid	(4,254)	(4,454)
Payment of lease liabilities	(142)	(169)
Payment of share issuance costs	11	(38)
Redemption of preferred shares	-	(15,000)
Decrease in non-controlling interest and others	(996)	-

The effect of exchange rate changes on cash and cash equivalents amounted to P74 million and P9 million for the period ended March 31, 2021 and 2020, 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 March 31, 2021	As of December 31, 2020
Liquidity:		
Current Ratio	1.56	1.22
Quick Ratio	0.90	0.68
Solvency:		
Debt to Equity Ratio	1.01	1.10
Asset to Equity Ratio	2.01	2.10
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	18.16%	15.09%
Interest Rate Coverage Ratio	14.52	9.07
Return on Assets	9.55%	8.26%

	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020
Operating Efficiency:		
Volume Growth	1.00%	(14.00%)
Revenue Growth	10.64%	(8.77%)
Operating Margin	16.46%	12.52%

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

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

SAN MIGUEL FOOD AND BEVERAGE, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2021
(In Millions)

					Past Due						
		Total		**Current**		**1 - 30 Days**		**31 - 60 Days**		**61 - 90 Days**	
Trade	P	13,511	P	10,316	P	1,594	P	260	P	141	P
Non-trade		1,688		692		103		138		61	
Others		1,407		262		34		70		59	
Total		16,606	P	11,270	P	1,731	P	468	P	261	P
Less allowance for impairment losses		1,562									
Net	P	15,044									

	Past Due
	Over 90 Days
Trade	1,200
Non-trade	694
Others	982
Total	2,876

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company 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 March 31, 2021	As of December 31, 2020
Liquidity:		
Current Ratio	1.56	1.22
Quick Ratio	0.90	0.68
Solvency:		
Debt to Equity Ratio	1.01	1.10
Asset to Equity Ratio	2.01	2.10
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	18.16%	15.09%
Interest Rate Coverage Ratio	14.52	9.07
Return on Assets	9.55%	8.26%

	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020
Operating Efficiency:		
Volume Growth	1.00%	(14.00%)
Revenue Growth	10.64%	(8.77%)
Operating Margin	16.46%	12.52%

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

KPI	Formula
Current Ratio	Current Assets / Current Liabilities
Quick Ratio	Current Assets – Inventory – Current Portion of Biological Assets - Prepayments / Current Liabilitiies

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

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