

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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P	H	I	L	I	P	P	I	N	E	S									

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1	2
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Month

3	1
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Day

SEC FORM (2nd Quarter 2022)

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FORM TYPE

2nd Tuesday of June

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic Foreign

To be accomplished by SEC Personnel concerned

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File Number

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**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **June 30, 2022**
2. Commission identification number **PW00000227**
3. BIR Tax Identification No. **000-060-741-000**
4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**
5. **Philippines**
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City, Metro Manila
Address of issuer's principal office **1550**
Postal Code
8. **(632) 8632-3000**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

	Number of Shares of Stock and debt Outstanding as of <u>June 30, 2022</u>	
Common Shares	2,383,896,588	
SUB-TOTAL (Common Shares)		2,383,896,588
Series "2-F" Preferred Shares	223,333,500	
Series "2-H" Preferred Shares	164,000,000	
Series "2-I" Preferred Shares	169,333,400	
Series "2-J" Preferred Shares	266,666,667	
Series "2-K" Preferred Shares	<u>183,904,900</u>	
(SUB-TOTAL (Preferred Shares))		1,007,238,467
TOTAL Outstanding Shares		3,391,135,055
Total Liabilities		P1,539,238 million

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

Yes ☒ No ☐

If yes, disclose name of the Stock Exchange and class of securities listed therein:

Philippine Stock Exchange

- (a) Common Shares
- (b) Series "2" Preferred Shares - 2-F
- (c) Series "2" Preferred Shares - 2-H
- (d) Series "2" Preferred Shares - 2-I
- (e) Series "2" Preferred Shares - 2-J
- (f) Series "2" Preferred Shares - 2-K

12. Indicate by check mark whether the registrant:

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

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 Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2022 (with comparative figures as of December 31, 2021 and for the period ended June 30, 2021) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

The Company 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 otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.

NONE

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

Signature and Title  **FERDINAND K. CONSTANTINO**
Chief Finance Officer and Treasurer

Date August 15, 2022

Signature and Title  **BELLA O. NAVARRA**
Comptroller/ship Manager/
Principal Accounting Officer

Date August 15, 2022

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND DECEMBER 31, 2021
(In Millions)

ANNEX "A"

ASSETS

	2022 Unaudited	2021 Audited
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	P 302,944	P 300,030
Trade and other receivables - net (Notes 5, 9 and 10)	222,189	161,808
Inventories	183,802	141,209
Current portion of biological assets - net	3,405	3,106
Prepaid expenses and other current assets (Notes 2, 9 and 10)	119,028	108,689
Total Current Assets	831,368	714,842
Noncurrent Assets		
Investments and advances - net (Note 2)	57,293	55,002
Investments in equity and debt instruments (Notes 9 and 10)	42,028	41,966
Property, plant and equipment - net (Note 6)	645,000	567,609
Right-of-use assets - net	114,055	163,364
Investment property - net	70,627	69,825
Biological assets - net of current portion	2,592	2,244
Goodwill - net	130,492	130,081
Other intangible assets - net	209,078	190,979
Deferred tax assets (Note 2)	19,295	17,141
Other noncurrent assets - net (Notes 5, 9 and 10)	100,073	98,600
Total Noncurrent Assets	1,390,533	1,336,811
	P 2,221,901	P 2,051,653

LIABILITIES AND EQUITY

	2022 Unaudited	2021 Audited
Current Liabilities		
Loans payable (Notes 5, 9 and 10)	P 242,147	P 190,779
Accounts payable and accrued expenses (Notes 5, 9 and 10)	243,347	194,579
Lease liabilities - current portion (Notes 5, 9 and 10)	20,204	23,423
Income and other taxes payable (Note 2)	33,251	23,102
Dividends payable (Notes 5 and 8)	4,261	4,296
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	133,193	88,857
Total Current Liabilities	676,403	525,036
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	747,909	725,108
Lease liabilities - net of current portion (Notes 5, 9 and 10)	63,886	71,569
Deferred tax liabilities (Note 2)	30,653	28,742
Other noncurrent liabilities (Notes 5, 9 and 10)	20,387	19,959
Total Noncurrent Liabilities	862,835	845,378
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,443	16,443
Capital stock - preferred	10,187	10,187
Additional paid-in capital	177,719	177,719
Capital securities	28,171	28,171
Equity reserves (Note 2)	15,577	14,136
Retained earnings:		
Appropriated	63,437	66,630
Unappropriated (Note 2)	154,383	157,707
Treasury stock	(144,363)	(144,363)
	321,554	326,630
Non-controlling Interests (Note 2)	361,109	354,609
Total Equity	682,663	681,239
	P 2,221,901	P 2,051,653

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

CERTIFIED CORRECT:

BELLA G. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021
(In Millions, Except Per Share Data)

	2022	2021	For the Quarter Ended	2021
	Unaudited	Unaudited	Unaudited	Unaudited
SALES (Note 3)	P 711,416	P 410,124	P 394,651	P 208,964
COST OF SALES	<u>587,427</u>	<u>312,595</u>	<u>330,560</u>	<u>163,563</u>
GROSS PROFIT	123,989	97,529	64,091	45,401
SELLING AND ADMINISTRATIVE EXPENSES	(38,131)	(36,513)	(18,364)	(16,596)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(25,633)	(23,539)	(13,268)	(11,678)
INTEREST INCOME	2,313	1,674	1,276	827
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	725	320	277	1
GAIN ON SALE OF PROPERTY AND EQUIPMENT	2	129	-	128
OTHER INCOME (CHARGES) - Net (Note 4)	<u>(32,386)</u>	<u>(1,908)</u>	<u>(23,257)</u>	<u>202</u>
INCOME BEFORE INCOME TAX	30,879	37,692	10,755	18,285
INCOME TAX EXPENSE (Note 2)	<u>11,074</u>	<u>8,122</u>	<u>4,893</u>	<u>5,889</u>
NET INCOME	<u>P 19,805</u>	<u>P 29,570</u>	<u>P 5,862</u>	<u>P 12,396</u>
Attributable to:				
Equity holders of the Parent Company	P (1,341)	P 13,070	P (7,677)	P 3,774
Non-controlling interests	<u>21,146</u>	<u>16,500</u>	<u>13,539</u>	<u>8,622</u>
	<u>P 19,805</u>	<u>P 29,570</u>	<u>P 5,862</u>	<u>P 12,396</u>
Basic and Diluted Earnings (Losses) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	<u>P (1.90)</u>	<u>P 3.68</u>	<u>P (3.89)</u>	<u>P 0.70</u>
Cash Dividends Declared Per Common Share (Note 8)	<u>P 0.70</u>	<u>P 0.70</u>	<u>P 0.35</u>	<u>P 0.35</u>

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021
(In Millions)

	2022 Unaudited	2021 Unaudited	For the Quarter Ended 2022 Unaudited	2021 Unaudited
NET INCOME	P 19,805	P 29,570	P 5,862	P 12,396
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	(4)	-	-	-
INCOME TAX BENEFIT (EXPENSE) (Note 2)	1	(557)	-	(86)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(44)	19	(29)	11
INCOME TAX BENEFIT (EXPENSE)	9	(2)	7	-
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	(244)	(37)	(134)	60
	(282)	(577)	(156)	(15)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	3,242	(74)	2,239	947
NET GAIN (LOSS) ON CASH FLOW HEDGES	30	458	(335)	(8)
INCOME TAX BENEFIT (EXPENSE)	(16)	(155)	183	(9)
	3,256	229	2,087	930
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	2,974	(348)	1,931	915
TOTAL COMPREHENSIVE INCOME - Net of tax	P 22,779	P 29,222	P 7,793	P 13,311
Attributable to:				
Equity holders of the Parent Company	P 212	P 13,277	P (6,736)	P 4,545
Non-controlling interests	22,567	15,945	14,529	8,766
	P 22,779	P 29,222	P 7,793	P 13,311

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

CERTIFIED CORRECT:

BELLAYO NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests		Total Equity
	Capital Securities					Equity Reserves												
	Capital Stock		Additional Paid-in Capital	Senior Perpetual Capital Securities	Redeemable Perpetual Securities	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock		Total			
	Common	Preferred									Appropriated	Unappropriated	Common	Preferred				
As at January 1, 2022 (Audited)	P 16,443	P 10,187	P 177,719	P 24,211	P 3,960	P (4,137)	P (534)	P 269	P 2,265	P 16,273	P 66,630	P 157,707	P (67,093)	P (77,270)	P 326,630	P 354,609	P 681,239	
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	1,832	-	-	-	-	-	1,832	1,410	3,242	
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	-	(242)	(10)	-	-	-	-	-	(252)	8	(244)	
Net gain on cash flow hedges, net of tax	-	-	-	-	-	-	10	-	-	-	-	-	-	-	10	4	14	
Equity reserve for retirement plan	-	-	-	-	-	(1)	-	-	-	-	-	-	-	-	(1)	(2)	(3)	
Net gain (loss) on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(36)	-	-	-	-	-	-	(36)	1	(35)	
Other comprehensive income (loss)	-	-	-	-	-	(1)	10	(278)	1,822	-	-	-	-	-	1,553	1,421	2,974	
Net income (loss)	-	-	-	-	-	-	-	-	-	-	-	(1,341)	-	-	(1,341)	21,146	19,805	
Total comprehensive income (loss)	-	-	-	-	-	(1)	10	(278)	1,822	-	-	(1,341)	-	-	212	22,567	22,779	
Net reduction to non-controlling interests and others	-	-	-	-	-	-	-	-	-	(112)	-	(326)	-	-	(438)	(942)	(1,380)	
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	-	(3,193)	3,193	-	-	-	-	-	
Cash dividends and distributions (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Common	-	-	-	-	-	-	-	-	-	-	-	(1,669)	-	-	(1,669)	(5,645)	(7,314)	
Preferred	-	-	-	-	-	-	-	-	-	-	-	(2,147)	-	-	(2,147)	(249)	(2,396)	
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	(934)	-	-	(934)	(9,231)	(10,165)	
Redeemable perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(100)	-	-	(100)	-	(100)	
As at June 30, 2022 (Unaudited)	P 16,443	P 10,187	P 177,719	P 24,211	P 3,960	P (4,138)	P (524)	P (9)	P 4,087	P 16,161	P 63,437	P 154,383	P (67,093)	P (77,270)	P 321,554	P 361,109	P 682,663	
As at January 1, 2021 (Audited)	P 16,443	P 10,187	P 177,719	P 24,211	P 3,960	P (5,102)	P (654)	P 383	P (2,218)	P 17,722	P 60,155	P 162,204	P (67,093)	P (43,053)	P 354,864	P 300,224	P 655,088	
Gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	298	-	-	-	-	-	298	(372)	(74)	
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	-	(41)	3	-	-	-	-	-	(38)	1	(37)	
Net gain on cash flow hedges, net of tax	-	-	-	-	-	-	272	-	-	-	-	-	-	-	272	31	303	
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	17	-	-	-	-	-	-	17	-	17	
Equity reserve for retirement plan (Note 2)	-	-	-	-	-	(342)	-	-	-	-	-	-	-	-	(342)	(215)	(557)	
Other comprehensive income (loss)	-	-	-	-	-	(342)	272	(24)	301	-	-	-	-	-	207	(555)	(348)	
Net income	-	-	-	-	-	-	-	-	-	-	-	13,070	-	-	13,070	16,500	29,570	
Total comprehensive income (loss)	-	-	-	-	-	(342)	272	(24)	301	-	-	13,070	-	-	13,277	15,945	29,222	
Redemption of Subseries "2-G" preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,000)	(5,000)	-	(5,000)	
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	(32)	-	(3)	(231)	(1,208)	-	(249)	-	-	(1,723)	42,708	40,985	
Appropriations - net	-	-	-	-	-	-	-	-	-	-	8,108	(8,108)	-	-	-	-	-	
Cash dividends and distributions (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Common	-	-	-	-	-	-	-	-	-	-	-	(1,669)	-	-	(1,669)	(4,708)	(6,377)	
Preferred	-	-	-	-	-	-	-	-	-	-	-	(3,313)	-	-	(3,313)	(1,056)	(4,369)	
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	(881)	-	-	(881)	(5,977)	(6,858)	
Redeemable perpetual securities	-	-	-	-	-	-	-	-	-	-	-	(100)	-	-	(100)	-	(100)	
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(656)	(656)	
As at June 30, 2021 (Unaudited)	P 16,443	P 10,187	P 177,719	P 24,211	P 3,960	P (5,476)	P (382)	P 356	P (2,148)	P 16,514	P 68,263	P 160,954	P (67,093)	P (48,053)	P 355,455	P 346,480	P 701,935	

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

CERTIFIED CORRECT:

BELLAR C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021
(In Millions)

	2022 Unaudited	2021 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 30,879	P 37,692
Adjustments for:		
Depreciation, amortization and others - net (Notes 4 and 6)	33,399	21,478
Interest expense and other financing charges	25,633	23,539
Interest income	(2,313)	(1,674)
Equity in net earnings of associates and joint ventures	(725)	(320)
Gain on sale of property and equipment	(2)	(129)
Operating income before working capital changes	86,871	80,586
Changes in noncash current assets, certain current liabilities and others	(44,835)	(12,159)
Cash generated from operations	42,036	68,427
Interest and other financing charges paid	(25,392)	(24,555)
Income taxes paid	(9,572)	(7,552)
Net cash flows provided by operating activities	7,072	36,320
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment (Note 6)	(33,465)	(27,205)
Additions to intangible assets	(19,881)	(4,800)
Increase in other noncurrent assets and others	(6,971)	(763)
Additions to advances to contractors and suppliers	(5,140)	(6,674)
Additions to investments and advances	(1,529)	(1,111)
Additions to investment property	(1,523)	(3,846)
Additions to investments in equity and debt instruments	(479)	(145)
Interest received	1,628	1,454
Dividends received	1,049	544
Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of	307	-
Proceeds from sale of property and equipment	89	936
Net cash flows used in investing activities	(65,915)	(41,610)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	499,710	360,763
Long-term borrowings	101,875	53,251
Payments of:		
Short-term borrowings	(449,382)	(340,008)
Long-term borrowings	(62,004)	(75,113)
Payments of lease liabilities	(15,976)	(12,990)
Cash dividends and distributions paid to non-controlling shareholders	(15,190)	(12,443)
Cash dividends and distributions paid (Note 8)	(4,818)	(5,866)
Decrease in non-controlling interests and others	(1,020)	(249)
Net proceeds from issuance of capital securities of subsidiaries	-	54,550
Redemption of capital securities of a subsidiary	-	(14,582)
Redemption of preferred shares	-	(5,000)
Net cash flows provided by financing activities	53,195	2,313
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	8,562	2,880
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,914	(97)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	300,030	347,209
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 302,944	P 347,112

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

CERTIFIED CORRECT:

BELL D. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2022
(In Millions)

				Past Due			
		Total	Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P	135,872	P 96,488	P 10,489	P 4,143	P 2,974	P 21,778
Non-trade		83,813	34,217	16,393	731	5,162	27,310
Others		15,836	14,677	217	11	8	923
Total		235,521	P 145,382	P 27,099	P 4,885	P 8,144	P 50,011
Less allowance for impairment losses		13,332					
Net	P	<u>222,189</u>					

San Miguel Corporation**Proceeds from Issuance of Series "2", in Subseries "K" Preferred Shares****June 30, 2022****(Amounts in Millions)****i) Gross and Net Proceeds as Disclosed in the Final Prospectus ^a**

Gross Proceeds		P	20,000
Estimated Fees, Commissions and Expenses Relating to the Issue:			
Underwriting fees for the Series 2-K Preferred Shares			
being sold by the Company	P	118	
Taxes to be paid by the Company		13	
Philippine SEC filing and legal research fee		5	
PSE filing fee (inclusive of VAT)		22	
Estimated legal and other professional fees		5	
Estimated other expenses		4	167
Net Proceeds		P	<u>19,833</u>

ii) Actual Gross and Net Proceeds ^b

Gross Proceeds		P	13,793
Underwriting fees	P	80	
Taxes		7	
Philippine SEC filing and legal research fee		5	
PSE filing fee (inclusive of VAT)		22	
Estimated legal and other professional fees		3	117
Net Proceeds		P	<u>13,676</u>

iii) Each Expenditure Item Where the Proceeds were Used

Investment in Bank of Commerce through			
SMC Equivest Corporation		P	5,500
Additional investment in San Miguel Aerocity Inc. for the			
Manila International Airport			8,176
Total Expenditure Where the Proceeds Were Used			<u>13,676</u>

iv) Balance of the Proceeds as of End of Reporting Period**P** -

^a The Gross and Net Proceeds as disclosed in Final Prospectus is based on (a) 133,333,400 Series "2" Preferred Shares with an (b) oversubscription option of 133,333,267 Series "2" Preferred Shares at P75.00 per share amounting to P20,000 million.

^b The Actual Gross and Net Proceeds is based on (a) 133,333,400 Series "2" Preferred Shares with an (b) oversubscription option of 50,571,500 Series "2" Preferred Shares at P75.00 per share amounting to P13,793 million.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **(Amounts in Millions, Except Per Share Data)**

1. Summary of Significant Accounting and Financial Reporting Policies

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 4, 2022.

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

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

Adoption of Amended Standards

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

Amended Standards Adopted in 2022

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

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

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

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

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

allocation of other direct costs.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards, of which the following are applicable to the Group:
 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *Financial Instruments*). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
 - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.
 - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.
- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:
 - replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements;
 - added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
 - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the interim consolidated financial statements. None of these are expected to have a significant effect on the interim consolidated financial statements.

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

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

- removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
- clarified that a right to defer settlement exists only if an entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023, with early application permitted.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

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

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

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

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

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial

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

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

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

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

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

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

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

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

2. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law

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

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

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up in the first quarter of 2021, are as follows:

	Increase (Decrease)
ASSETS	
Prepaid expenses and other current assets	P407
Investments and advances - net	9
Deferred tax assets	(2,075)
	(P1,659)
LIABILITIES	
Income and other taxes payable	(P881)
Deferred tax liabilities	(3,877)
	(4,758)
EQUITY	
Equity reserves	(P329)
Retained earnings	3,342
Non-controlling interests	86
	3,099
TOTAL LIABILITIES AND EQUITY	(P1,659)
INCOME BEFORE INCOME TAX	
Equity in net earnings of associates and joint ventures	P9
INCOME TAX EXPENSE	
Current	(1,288)
Deferred	(2,319)
	(3,607)
NET INCOME	P3,616
Attributable to:	
Equity holders of the Parent Company	P3,342
Non-controlling interests	274
	P3,616

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 separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

The food and beverage 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. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

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

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

The fuel and oil segment is engaged in refining crude oil and marketing and distribution of refined petroleum products.

The infrastructure segment has investments in companies which hold long-term concessions in the infrastructure sector in the Philippines. It is engaged in the management and operation, as well as, construction and development of various infrastructure projects such as major toll roads, airports, railways and bulk water.

Inter-segment Transactions

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

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement, Real Estate and Others		Eliminations		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Sales																
External sales	P172,027	P146,747	P13,015	P11,959	P99,183	P58,323	P392,235	P171,319	P13,422	P8,484	P21,534	P13,292	P -	P -	P711,416	P410,124
Inter-segment sales	95	44	3,065	2,658	3,398	1,956	6,282	2,812	3	1	16,600	13,730	(29,443)	(21,201)	-	-
Total sales	P172,122	P146,791	P16,080	P14,617	P102,581	P60,279	P398,517	P174,131	P13,425	P8,485	P38,134	P27,022	(P29,443)	(P21,201)	P711,416	P410,124
Result																
Segment result	P26,567	P23,042	P959	P614	P12,750	P17,158	P35,998	P14,968	P6,018	P2,319	P3,069	P2,110	P497	P805	P85,858	P61,016

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 and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement, Real Estate and Others		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Timing of revenue recognition														
Sales recognized at point in time	P172,020	P146,742	P12,637	P11,598	P -	P -	P392,235	P171,319	P -	P -	P19,895	P12,037	P596,787	P341,696
Sales recognized over time	7	5	378	361	99,183	58,323	-	-	13,422	8,484	1,639	1,255	114,629	68,428
Total external sales	P172,027	P146,747	P13,015	P11,959	P99,183	P58,323	P392,235	P171,319	P13,422	P8,484	P21,534	P13,292	P711,416	P410,124

4. Other Charges - Net

Other charges - net consists of:

	<i>Note</i>	June 30	
		2022	2021
Construction costs		(P18,614)	(P3,518)
Loss on derivatives - net	10	(18,121)	(5,624)
Loss on foreign exchange - net	9	(16,855)	(515)
Construction revenue		18,614	3,518
Power Sector Assets and Liabilities Management Corporation (PSALM) monthly fees reduction		851	3,348
Dividend income		549	544
Others		1,190	339
		(P32,386)	(P1,908)

The construction revenue recognized in profit or loss approximates the construction costs recognized. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs are recognized by reference to the stage of completion of the construction activity of toll road, airport, water and power concession rights as at reporting date.

“Others” consist of rent income, commission income, insurance claims, changes in fair value of financial assets at fair value through profit or loss (FVPL), reversal of impairment, casualty loss and expenses of closed facilities.

5. Related Party Disclosures

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

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

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

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	June 30, 2022	P3	P -	P3,937	P551	On demand;	Unsecured;
	December 31, 2021	8	-	3,652	551	non-interest bearing	no impairment
	June 30, 2022	-	-	3,037	-	To be settled on the	Unsecured;
	December 31, 2021	-	-	3,037	-	first anniversary of commercial operations of the Nonoc Project; interest bearing	no impairment
Retirement Plans	June 30, 2022	10	-	4,523	-	On demand;	Unsecured;
	December 31, 2021	23	-	4,433	-	non-interest bearing	no impairment
	June 30, 2022	122	-	4,398	-	On demand;	Unsecured;
	December 31, 2021	266	-	4,371	-	interest bearing	no impairment
Associates	June 30, 2022	512	8	971	33	On demand;	Unsecured;
	December 31, 2021	2,045	46	1,245	30	non-interest bearing	no impairment
	June 30, 2022	4	-	114	20,932	Less than 1	Unsecured and
	December 31, 2021	9	-	140	18,817	to 10 years; interest bearing	secured; no impairment
Joint Ventures	June 30, 2022	242	179	225	68	On demand;	Unsecured;
	December 31, 2021	321	1,681	81	177	non-interest bearing	no impairment
	June 30, 2022	-	-	621	-	On demand;	Unsecured;
	December 31, 2021	-	-	621	-	interest bearing	with impairment
Shareholders in Subsidiaries	June 30, 2022	29	-	1,134	-	Less than 1	Unsecured;
	December 31, 2021	24	-	1,170	-	to 10.5 years; interest bearing	no impairment
Others	June 30, 2022	160	385	111	2,658	On demand;	Unsecured;
	December 31, 2021	79	1,757	123	2,454	non-interest bearing	no impairment
Total	June 30, 2022	2,747	1,257	889	161	On demand;	Unsecured;
	December 31, 2021	3,178	2,649	837	61	non-interest bearing	no impairment
Total	June 30, 2022	P3,829	P1,829	P19,960	P24,403		
	December 31, 2021	P5,953	P6,133	P19,710	P22,090		

1) Amounts owed by related parties consist of current and noncurrent receivable and share in expenses.

a) Amounts owed by related parties include interest bearing receivable from Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company) related to the remaining balance of the consideration for the sale of Clariden Holdings, Inc. (Clariden) amounting to P2,312 and the assignment of certain receivables of the Ultimate Parent Company amounting to P725.

(i) *Amounts owed by the Ultimate Parent Company amounting to P2,312:* On September 27, 2019, SMC and Top Frontier agreed in writing that the second payment amounting to P1,099, plus 5.75% interest rate per annum of any portion thereof unpaid, and the final payment amounting to P1,213, plus 6.00% per annum of any portion thereof unpaid, shall be payable and the interest shall be accrued, on the first anniversary of commercial operations of the Nonoc Project or such extended date as may be mutually agreed by the parties in writing. As a result, no accrual of interest was made as at June 30, 2022 and December 31, 2021. The Nonoc Project is primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte undertaken by Pacific Nickel Philippines, Inc., an indirect subsidiary of Clariden. These amounts are included as part of noncurrent receivables and deposits under "Other noncurrent assets - net" account in the consolidated statements of financial position as at June 30, 2022 and December 31, 2021.

(ii) *Amounts owed by the Ultimate Parent Company amounting to P725:* These amounts are subject to 5.75% interest rate per annum and will accrue upon commencement of commercial operations of the Nonoc Project. As a result, no accrual of interest was made as at June 30, 2022

and December 31, 2021. These amounts are included as part of noncurrent receivables and deposit under "Other noncurrent assets - net" account in the consolidated statements of financial position as at June 30, 2022 and December 31, 2021.

- b) The amounts owed by related parties include non-interest bearing receivable from joint ventures included as part of "Trade and other receivables - net" account in the consolidated statements of financial position. Allowance for impairment losses pertaining to these receivables amounted to P621 as at June 30, 2022 and December 31, 2021.
- 2) Amounts owed to related parties consist of trade payables, professional fees and leases. As at June 30, 2022, amount owed to a related party for the lease of office space presented as part of "Lease liabilities - current portion" amounted to P1. As at December 31, 2021, amounts owed to a related party for the lease of office space presented as part of "Lease liabilities - current portion" and "Lease liabilities - net of current portion" amounted P2 and P1, respectively. The amount owed to the Ultimate Parent Company pertains to dividends payable.
- 3) The amounts owed to associates include interest bearing loans payable to Bank of Commerce (BOC) presented as part of "Loans payable" account amounting to P9,252 and P6,994 and "Long-term debt" account amounting to P11,680 and P11,823 in the consolidated statements of financial position as at June 30, 2022 and December 31, 2021, respectively.

The amounts owed to associates include syndicated project finance loans amounting to P10,064 and P10,444 as at June 30, 2022 and December 31, 2021, respectively, which were secured by certain property, plant and equipment and other intangible assets.

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

6. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2022 and December 31, 2021

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2021 (Audited)	P41,964	P61,683	P146,692	P175,957	P19,786	P190,957	P7,587	P99,655	P744,281
Additions	1,524	173	527	1,903	149	3,858	180	66,107	74,421
Acquisition of subsidiaries	867	120	-	-	-	43	-	-	1,030
Disposals/retirement	(2)	(262)	-	(5)	(24)	(2,823)	(110)	(15)	(3,241)
Reclassifications and others	(490)	2,564	2,620	9,923	(65)	6,523	917	(21,211)	781
Currency translation adjustments	32	758	4,287	754	246	2,109	6	(75)	8,117
December 31, 2021 (Audited)	43,895	65,036	154,126	188,532	20,092	200,667	8,580	144,461	825,389
Additions	175	33	49,086	260	125	1,071	13	31,170	81,933
Disposals/retirement	(11)	(23)	-	-	(75)	(640)	(6)	-	(755)
Reclassifications and others	90	866	636	2,198	167	4,427	534	(1,803)	7,115
Currency translation adjustments	66	388	-	535	215	1,481	9	(74)	2,620
June 30, 2022 (Unaudited)	44,215	66,300	203,848	191,525	20,524	207,006	9,130	173,754	916,302
Accumulated Depreciation and Amortization									
January 1, 2021 (Audited)	3,477	19,393	16,292	60,607	13,689	103,819	1,969	-	219,246
Depreciation and amortization	465	1,852	6,265	3,665	941	10,294	424	-	23,906
Acquisition of subsidiaries	88	119	-	-	-	42	-	-	249
Disposals/retirement	(2)	(215)	-	(1)	(15)	(1,781)	(104)	-	(2,118)
Reclassifications	(83)	(131)	-	-	2	(997)	53	-	(1,156)
Currency translation adjustments	3	244	1,562	245	134	976	6	-	3,170
December 31, 2021 (Audited)	3,948	21,262	24,119	64,516	14,751	112,353	2,348	-	243,297
Depreciation and amortization	228	898	3,455	2,289	566	4,891	212	-	12,539
Disposals/retirement	(11)	(15)	-	-	(72)	(566)	(4)	-	(668)
Reclassifications	(6)	(143)	-	-	(16)	(51)	32	-	(184)
Currency translation adjustments	3	176	-	225	140	833	1	-	1,378
June 30, 2022 (Unaudited)	4,162	22,178	27,574	67,030	15,369	117,460	2,589	-	256,362

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses									
January 1, 2021 (Audited)	P -	P3,129	P -	P -	P -	P10,255	P27	P -	P13,411
Impairment	38	2	-	-	1	45	-	-	86
Disposals/retirement	-	-	-	-	-	(24)	(1)	-	(25)
Currency translation adjustments	-	264	-	-	-	747	-	-	1,011
December 31, 2021 (Audited)	38	3,395	-	-	1	11,023	26	-	14,483
Reversal of impairment	-	-	-	-	(1)	(10)	-	-	(11)
Disposals/retirement	-	(4)	-	-	-	-	-	-	(4)
Currency translation adjustments	-	95	-	-	-	376	1	-	472
June 30, 2022 (Unaudited)	38	3,486	-	-	-	11,389	27	-	14,940
Carrying Amount									
December 31, 2021 (Audited)	P39,909	P40,379	P130,007	P124,016	P5,340	P77,291	P6,206	P144,461	P567,609
June 30, 2022 (Unaudited)	P40,015	P40,636	P176,274	P124,495	P5,155	P78,157	P6,514	P173,754	P645,000

June 30, 2021

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2021 (Audited)	P41,964	P61,683	P146,692	P175,957	P19,786	P190,957	P7,587	P99,655	P744,281
Additions	1,162	70	113	232	99	1,338	12	24,179	27,205
Acquisition of subsidiaries	867	120	-	-	-	43	-	-	1,030
Disposals/retirement	(1)	(129)	-	-	(45)	(1,526)	(45)	(14)	(1,760)
Reclassifications and others	(764)	1,376	71	10,414	94	3,860	79	(14,912)	218
Currency translation adjustments	(79)	143	1,118	(156)	(124)	396	-	338	1,636
June 30, 2021 (Unaudited)	43,149	63,263	147,994	186,447	19,810	195,068	7,633	109,246	772,610
Accumulated Depreciation and Amortization									
January 1, 2021 (Audited)	3,477	19,393	16,292	60,607	13,689	103,819	1,969	-	219,246
Depreciation and amortization	230	867	3,043	1,389	494	5,006	212	-	11,241
Acquisition of subsidiaries	88	119	-	-	-	42	-	-	249
Disposals/retirement	(1)	(114)	-	-	(33)	(769)	(39)	-	(956)
Reclassifications	(11)	(65)	-	-	33	(665)	-	-	(708)
Currency translation adjustments	(3)	28	353	(125)	(71)	104	2	-	288
June 30, 2021 (Unaudited)	3,780	20,228	19,688	61,871	14,112	107,537	2,144	-	229,360

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses									
January 1, 2021 (Audited)	P -	P3,129	P -	P -	P -	P10,255	P27	P -	P13,411
Disposals/retirement	-	-	-	-	-	(2)	-	-	(2)
Reclassifications	-	-	-	-	-	(10)	-	-	(10)
Currency translation adjustments	-	80	-	-	-	220	-	-	300
June 30, 2021 (Unaudited)	-	3,209	-	-	-	10,463	27	-	13,699
Carrying Amount									
June 30, 2021 (Unaudited)	P39,369	P39,826	P128,306	P124,576	P5,698	P77,068	P5,462	P109,246	P529,551

Depreciation and amortization charged to operations amounted to P12,539 and P11,241 for the periods ended June 30, 2022 and 2021, respectively.

Reclassifications and others include transfers to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party and reclassifications from capital projects in progress account to specific property, plant and equipment accounts.

In June 2022, the Independent Power Producer Administration Agreement between South Premiere Power Corp., a subsidiary of SMC Global Power Holdings Corp. (SMC Global), and PSALM has ended. Accordingly, the Ilijan Power Plant was reclassified from right-of-use assets to property, plant and equipment account, presented as part of “Additions”.

As at June 30, 2022 and December 31, 2021, certain property, plant and equipment amounting to P125,010 and P127,673, respectively, are pledged as security for syndicated project finance loans.

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 and distributions to holders of Redeemable Perpetual Securities (RPS) and Senior Perpetual Capital Securities (SPCS), by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Basic and diluted EPS is computed as follows:

	June 30	
	2022	2021
Net income (loss) attributable to equity holders of the Parent Company	(P1,341)	P13,070
Less: Dividends on preferred shares for the period	2,147	3,313
Distributions to capital securities for the period	1,034	992
Net income (loss) attributable to common shareholders of the Parent Company (a)	(P4,522)	P8,765
Weighted average number of common shares outstanding (in millions) - basic and diluted (b)	2,384	2,384
Basic and diluted earnings (losses) per common share attributable to equity holders of the Parent Company (a/b)	(P1.90)	P3.68

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

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

8. Cash Dividends and Distributions

Cash Dividends

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

2022

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	March 10, 2022	April 1, 2022	April 29, 2022	P0.35
	June 14, 2022	July 1, 2022	July 27, 2022	0.35
Preferred				
SMC2F	February 10, 2022	March 21, 2022	April 1, 2022	1.27635
	May 5, 2022	June 21, 2022	July 4, 2022	1.27635
SMC2H	February 10, 2022	March 21, 2022	April 1, 2022	1.1854125
	May 5, 2022	June 21, 2022	July 4, 2022	1.1854125
SMC2I	February 10, 2022	March 21, 2022	April 1, 2022	1.18790625
	May 5, 2022	June 21, 2022	July 4, 2022	1.18790625

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
SMC2J	February 10, 2022	March 21, 2022	April 1, 2022	P0.890625
	May 5, 2022	June 21, 2022	July 4, 2022	0.890625
SMC2K	February 10, 2022	March 21, 2022	April 1, 2022	0.84375
	May 5, 2022	June 21, 2022	July 4, 2022	0.84375

2021

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 11, 2021	April 5, 2021	April 30, 2021	P0.35
	June 8, 2021	July 2, 2021	July 28, 2021	0.35
Preferred				
SMC2C	January 21, 2021	March 19, 2021	April 5, 2021	1.50
	May 6, 2021	June 21, 2021	July 2, 2021	1.50
SMC2E	January 21, 2021	March 19, 2021	April 5, 2021	1.18603125
	May 6, 2021	June 21, 2021	July 2, 2021	1.18603125
SMC2F	January 21, 2021	March 19, 2021	April 5, 2021	1.27635
	May 6, 2021	June 21, 2021	July 2, 2021	1.27635
SMC2G	January 21, 2021	March 19, 2021	April 5, 2021	1.23361875
SMC2H	January 21, 2021	March 19, 2021	April 5, 2021	1.1854125
	May 6, 2021	June 21, 2021	July 2, 2021	1.1854125
SMC2I	January 21, 2021	March 19, 2021	April 5, 2021	1.18790625
	May 6, 2021	June 21, 2021	July 2, 2021	1.18790625
SMC2J	January 21, 2021	March 19, 2021	April 5, 2021	0.890625
	May 6, 2021	June 21, 2021	July 2, 2021	0.890625
SMC2K	January 21, 2021	March 19, 2021	April 5, 2021	0.84375
	May 6, 2021	June 21, 2021	July 2, 2021	0.84375

On August 4, 2022, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at September 21, 2022 on the following shares to be paid on October 4, 2022, as follows:

Class of Shares	Dividend Per Share
SMC2F	P1.27635
SMC2H	1.1854125
SMC2I	1.18790625
SMC2J	0.890625
SMC2K	0.84375

Distributions

The Parent Company paid P100 and P934 to the holders of RPS and SPCS, respectively, in 2022 and P100 and P881 to the holders of RPS and SPCS, respectively, in 2021, as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Parent Company.

On July 1 and 28, 2022, the Parent Company paid distributions amounting to P50 and P1,023 to the holders of RPS and SPCS, respectively.

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: (a) quality and integrity of the 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; (e) evaluation of management's process to assess and manage the enterprise risk issues; and (f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall 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 Securities and Exchange Commission (SEC) and/or the Philippine Stock Exchange, Inc.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and

evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

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

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. 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.

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

June 30, 2022	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P40,646 3.284% - 9.8754%	P95,688 3.284% - 9.8754%	P74,562 3.284% - 9.8754%	P70,573 3.284% - 9.8754%	P78,437 3.284% - 9.8754%	P131,824 3.3832% - 9.8754%	P491,730
Foreign currency-denominated (expressed in Philippine peso) Interest rate	7,352 4.7776% - 5.5959%	1,290 5.5959%	1,351 5.5959%	1,411 5.5959%	1,477 5.5959%	12,245 5.5959%	25,126
Floating Rate							
Philippine peso-denominated Interest rate	2,936 BVAL + margin or applicable reference rate, whichever is higher	999 BVAL + margin or applicable reference rate, whichever is higher	10,412 BVAL + margin or applicable reference rate, whichever is higher	119 BVAL + margin or applicable reference rate, whichever is higher	119 BVAL + margin or applicable reference rate, whichever is higher	7,464 BVAL + margin or applicable reference rate, whichever is higher	22,049
Foreign currency-denominated (expressed in Philippine peso) Interest rate	83,121 LIBOR/applicable reference rate + margin	53,621 LIBOR/applicable reference rate + margin	133,983 LIBOR/applicable reference rate + margin	17,361 LIBOR/applicable reference rate + margin	59,060 LIBOR/applicable reference rate + margin	4,030 LIBOR/applicable reference rate + margin	351,176
	P134,055	P151,598	P220,308	P89,464	P139,093	P155,563	P890,081
December 31, 2021	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P68,436 3.875% - 9.8754%	P57,685 3.284% - 9.8754%	P95,030 3.284% - 9.8754%	P55,159 3.284% - 9.8754%	P68,051 3.284% - 9.8754%	P145,335 3.3832% - 9.8754%	P489,696
Foreign currency-denominated (expressed in Philippine peso) Interest rate	1,995 4.7776% - 5.5959%	6,852 4.7776% - 5.5959%	1,225 5.5959%	1,281 5.5959%	1,340 5.5959%	12,044 5.5959%	24,737
Floating Rate							
Philippine peso-denominated Interest rate	3,139 BVAL + margin or applicable reference rate, whichever is higher	1,585 BVAL + margin or applicable reference rate, whichever is higher	706 BVAL + margin or applicable reference rate, whichever is higher	119 BVAL + margin or applicable reference rate, whichever is higher	119 BVAL + margin or applicable reference rate, whichever is higher	7,524 BVAL + margin or applicable reference rate, whichever is higher	13,192
Foreign currency-denominated (expressed in Philippine peso) Interest rate	16,040 LIBOR/applicable reference rate + margin	113,137 LIBOR/applicable reference rate + margin	115,122 LIBOR/applicable reference rate + margin	1,774 LIBOR/applicable reference rate + margin	44,814 LIBOR/applicable reference rate + margin	3,964 LIBOR/applicable reference rate + margin	294,851
	P89,610	P179,259	P212,083	P58,333	P114,324	P168,867	P822,476

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 P1,866 and P3,080 for the period ended June 30, 2022 and for the year ended December 31, 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

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

	June 30, 2022		December 31, 2021	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$2,878	P158,198	US\$3,177	P162,053
Trade and other receivables	1,415	77,811	1,215	61,951
Prepaid expenses and other current assets	32	1,749	14	715
Noncurrent receivables	52	2,885	3	138
	4,377	240,643	4,409	224,857
Liabilities				
Loans payable	538	29,558	331	16,884
Accounts payable and accrued expenses	2,395	131,655	2,573	131,235
Long-term debt (including current maturities)	6,845	376,302	6,267	319,588
Lease liabilities (including current portion)	710	39,002	847	43,210
Other noncurrent liabilities	21	1,098	63	3,200
	10,509	577,615	10,081	514,117
Net foreign currency-denominated monetary liabilities	(US\$6,132)	(P336,972)	(US\$5,672)	(P289,260)

The Group reported net losses on foreign exchange amounting to P16,855 and P515 for the periods ended June 30, 2022 and 2021, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

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

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
June 30, 2022				
Cash and cash equivalents	(P2,298)	(P2,331)	P2,298	P2,331
Trade and other receivables	(253)	(1,112)	253	1,112
Prepaid expenses and other current assets	(26)	(25)	26	25
Noncurrent receivables	(50)	(37)	50	37
	(2,627)	(3,505)	2,627	3,505
Loans payable	215	530	(215)	(530)
Accounts payable and accrued expenses	785	2,150	(785)	(2,150)
Long-term debt (including current maturities)	6,800	5,420	(6,800)	(5,420)
Lease liabilities (including current portion)	627	553	(627)	(553)
Other noncurrent liabilities	10	18	(10)	(18)
	8,437	8,671	(8,437)	(8,671)
	P5,810	P5,166	(P5,810)	(P5,166)
	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2021				
Cash and cash equivalents	(P2,722)	(P2,608)	P2,722	P2,608
Trade and other receivables	(404)	(870)	404	870
Prepaid expenses and other current assets	(12)	(11)	12	11
Noncurrent receivables	-	(2)	-	2
	(3,138)	(3,491)	3,138	3,491
Loans payable	30	324	(30)	(324)
Accounts payable and accrued expenses	1,086	1,865	(1,086)	(1,865)
Long-term debt (including current maturities)	6,215	4,917	(6,215)	(4,917)
Lease liabilities (including current portion)	762	657	(762)	(657)
Other noncurrent liabilities	54	48	(54)	(48)
	8,147	7,811	(8,147)	(7,811)
	P5,009	P4,320	(P5,009)	(P4,320)

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 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.

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, coal, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

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

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

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

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

June 30, 2022	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P302,944	P302,944	P302,944	P -	P -	P -
Trade and other receivables - net	222,189	222,189	222,189	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	4,555	4,555	3,132	484	939	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	317	317	317	-	-	-
Financial assets at fair value through other comprehensive income (FVOCI) (included under "Investments in equity and debt instruments" account)	41,895	41,895	-	-	2	41,893
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	634	668	542	5	121	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	35,666	36,184	-	7,177	16,588	12,419
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	17,356	17,356	15,121	752	-	1,483
Financial Liabilities						
Loans payable	242,147	243,208	243,208	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), asset retirement obligation (ARO), deferred income and other current non-financial liabilities)	236,598	236,598	236,598	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	5,058	5,058	5,058	-	-	-
Long-term debt (including current maturities)	881,102	1,027,988	173,682	184,716	502,133	167,457
Lease liabilities (including current portion)	84,090	98,611	24,353	24,561	30,593	19,104
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities)	9,034	9,079	-	2,219	5,116	1,744

December 31, 2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P300,030	P300,030	P300,030	P -	P -	P -
Trade and other receivables - net	161,808	161,808	161,808	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,529	1,529	870	61	598	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	298	298	298	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,982	42,016	47	32	-	41,937
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	577	586	556	30	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	32,310	32,902	-	7,085	20,475	5,342
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,965	12,965	10,872	629	-	1,464
Financial Liabilities						
Loans payable	190,779	191,186	191,186	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities)	191,864	191,864	191,864	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	1,992	1,992	1,247	23	722	-
Long-term debt (including current maturities)	813,965	946,870	123,060	206,989	433,488	183,333
Lease liabilities (including current portion)	94,992	120,223	27,788	23,175	36,545	32,715
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	7,897	8,097	-	3,453	3,553	1,091

Credit Risk

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

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

Trade and Other Receivables

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

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

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

Investment in Debt Instruments

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

Credit Quality

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

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

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

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

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

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

	June 30, 2022	December 31, 2021
Cash and cash equivalents (excluding cash on hand)	P300,816	P298,783
Trade and other receivables - net	222,189	161,808
Derivative assets	4,555	1,529
Investment in debt instruments at FVOCI	-	46
Investment in debt instruments at amortized cost	634	577
Noncurrent receivables and deposits - net	35,666	32,310
Restricted cash	17,356	12,965
	P581,216	P508,018

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

June 30, 2022						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P300,816	P -	P -	P -	P -	P300,816
Trade and other receivables	222,189	-	13,332	-	-	235,521
Derivative assets	-	-	-	3,018	1,537	4,555
Investment in debt instruments at amortized cost	501	133	-	-	-	634
Noncurrent receivables and deposits	-	35,666	578	-	-	36,244
Restricted cash	15,121	2,235	-	-	-	17,356

December 31, 2021						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P298,783	P -	P -	P -	P -	P298,783
Trade and other receivables	161,808	-	13,268	-	-	175,076
Derivative assets	-	-	-	851	678	1,529
Investment in debt instruments at FVOCI	-	-	-	-	46	46
Investment in debt instruments at amortized cost	547	30	-	-	-	577
Noncurrent receivables and deposits	-	32,310	572	-	-	32,882
Restricted cash	10,872	2,093	-	-	-	12,965

The aging of receivables is as follows:

June 30, 2022	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P96,488	P34,217	P14,677	P145,382
Past due:				
1 - 30 days	10,489	16,393	217	27,099
31 - 60 days	4,143	731	11	4,885
61 - 90 days	2,974	5,162	8	8,144
Over 90 days	21,778	27,310	923	50,011
	P135,872	P83,813	P15,836	P235,521

December 31, 2021	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P69,571	P30,459	P14,151	P114,181
Past due:				
1 - 30 days	10,052	1,063	386	11,501
31 - 60 days	3,135	1,790	37	4,962
61 - 90 days	1,947	2,418	30	4,395
Over 90 days	14,351	24,727	959	40,037
	P99,056	P60,457	P15,563	P175,076

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 Group's cash and cash equivalents, derivative assets, investment in debt instruments at FVOCI, investment in debt instruments at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

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

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

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

10. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

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

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

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

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

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

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

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely

payments of principal and interest on the principal amount outstanding.

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

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

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

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

economic environment.

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

Offsetting Financial Instruments

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

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

	June 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P302,944	P302,944	P300,030	P300,030
Trade and other receivables - net	222,189	222,189	161,808	161,808
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	4,555	4,555	1,529	1,529
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	317	317	298	298
Financial assets at FVOCI (included under "Investments in equity and debt instruments" account)	41,895	41,895	41,982	41,982
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	634	634	577	577
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	35,666	35,666	32,310	32,310
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	17,356	17,356	12,965	12,965
Financial Liabilities				
Loans payable	242,147	242,147	190,779	190,779
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities)	236,598	236,598	191,864	191,864
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	5,058	5,058	1,992	1,992
Long-term debt (including current maturities)	881,102	892,062	813,965	854,665
Lease liabilities (including current portion)	84,090	84,090	94,992	94,992
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	9,034	9,034	7,897	7,897

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.3% to 6.9% and 1.0% to 4.8% as at June 30, 2022 and December 31, 2021, respectively. The discount rates used for foreign currency-denominated loans range from 2.5% to 3.4% and 0.3% to 1.5% as at June 30, 2022 and December 31, 2021, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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 presented in the "Hedging reserve" account in the consolidated statements of changes in equity. 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 Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

June 30, 2022	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$60	US\$ -	US\$230	US\$290
Average strike rate	P52.95 to P56.15	-	P48.00 to P55.40	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$240	US\$30	US\$290
Average strike rate	P47.00 to P56.50	P47.00 to P56.50	P50.64	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.80%	3.60% to 4.01%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$30	US\$30	US\$225	US\$285
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.50% to 3.00%	

December 31, 2021	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps:				
Notional amount	US\$40	US\$60	US\$190	US\$290
Average strike rate	P51.96 to P54.47	P52.95 to P56.15	P48.00 to P53.70	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$240	US\$40	US\$300
Average strike rate	P47.00 to P57.00	P47.00 to P56.50	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.80%	3.60% to 5.75%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$15	US\$30	US\$15	US\$60
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

June 30, 2022	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	(P490)	P -	P155
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	(1,432)	(222)	(227)
Interest rate risk:			
US dollar-denominated borrowings	219	(225)	-

December 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	(P577)	P -	(P304)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	(680)	(802)	576
Interest rate risk:			
US dollar-denominated borrowings	4	(3)	-

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

June 30, 2022	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$290	P840	P -	Prepaid expenses and other current assets and Other noncurrent assets - net	P490	(P368)	(P490)	(P109)	Interest expense and other financing charges, and Other charges - net
Foreign currency and interest rate risks: Cross currency swap	290	581	1	Prepaid expenses and other current assets, Other noncurrent assets - net and Accounts payable and accrued expenses	1,432	(537)	(768)	46	Interest expense and other financing charges, and Other charges - net
Interest rate risk: Interest rate collar	285	116	-	Prepaid expenses and other current assets and Other noncurrent assets - net	(219)	300	18	3	Interest expense and other financing charges
December 31, 2021	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$290	P635	P12	Prepaid expenses and other current assets, Other noncurrent assets - net and Accounts payable and accrued expenses	P577	(P497)	(P597)	P194	Interest expense and other financing charges and Other charges - net
Foreign currency and interest rate risks: Cross currency swap	300	42	817	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	680	(340)	(476)	168	Interest expense and other financing charges and Other charges - net
Interest rate risk: Interest rate collar	60	1	5	Other noncurrent assets - net, and Accounts payable and accrued expenses	(4)	(16)	-	16	Interest expense and other financing charges

No ineffectiveness was recognized in the 2022 and 2021 consolidated statements of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	June 30, 2022		December 31, 2021	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P805)	P272	(P1,271)	P570
Changes in fair value:				
Foreign currency risk	490	(368)	597	(497)
Foreign currency risk and interest rate risks	1,442	(537)	1,195	(340)
Interest rate risk	(215)	300	24	(16)
Amount reclassified to profit or loss	(1,240)	158	(1,073)	378
Tax effect	(119)	103	(277)	177
Ending balance	(P447)	(P72)	(P805)	P272

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

The Group has outstanding interest rate swap with notional amount of US\$465 as at June 30, 2022. Under the agreement, the Group receives floating interest rate based on LIBOR and pays fixed interest rate up to 2026. The net positive fair value of the swap amounted to P45 as at June 30, 2022.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,416, US\$1,036 and US\$748 as at June 30 and March 31, 2022 and December 31, 2021, respectively, and with various maturities in 2022. The net positive (negative) fair value of these currency forwards amounted to P294, (P124) and P380 as at June 30 and March 31, 2022 and December 31, 2021, respectively.

Currency Options

The Group has outstanding currency options with an aggregate notional amount of US\$798, US\$1,344 and US\$400 as at June 30 and March 31, 2022 and December 31, 2021, respectively, and with various maturities in 2022. The net negative fair value of these currency options amounted to P429, P69 and P7 as at June 30 and March 31, 2022 and December 31, 2021, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its fuel oil and coal requirements, with various maturities in 2022 and 2023. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index.

The outstanding notional quantity of fuel oil were 14.3 million barrels, 21.8 million barrels and 24.6 million barrels as at June 30 and March 31, 2022 and December 31, 2021, respectively. The net negative fair value of these swaps amounted to P2,416, P1,631 and P533 as at June 30 and March 31, 2022 and December 31, 2021, respectively.

The outstanding notional quantity of coal were 189,000 metric tons, 102,000 metric tons and 96,000 metric tons as at June 30 and March 31, 2022 and December 31, 2021, respectively. The positive fair value of these swaps amounted to P946, P663 and P62 as at June 30 and March 31, 2022 and December 31, 2021, respectively.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$210, US\$266 and US\$260 as at June 30 and March 31, 2022 and December 31, 2021, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P478, P148 and P209 as at June 30 and March 31, 2022 and December 31, 2021, respectively.

The Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P18,121, P5,624, P8,547 and P3,896 for the periods ended June 30, 2022 and 2021, and March 31, 2022 and 2021, respectively (Note 4).

Fair Value Changes on Derivatives

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

	June 30, 2022	December 31, 2021
Balance at beginning of year	(P463)	(P3,263)
Net change in fair value of derivatives:		
Designated as accounting hedge	1,112	1,492
Not designated as accounting hedge	(18,109)	(9,366)
	(17,460)	(11,137)
Less fair value of settled instruments	(16,957)	(10,674)
Balance at end of period	(P503)	(P463)

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

	June 30, 2022			December 31, 2021		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P4,555	P4,555	P -	P1,529	P1,529
Financial assets at FVPL	-	317	317	-	298	298
Financial assets at FVOCI	735	41,160	41,895	777	41,205	41,982
Financial Liabilities						
Derivative liabilities	-	5,058	5,058	-	1,992	1,992

The Group has no financial instruments valued based on Level 3 as at June 30, 2022 and December 31, 2021. For the period ended June 30, 2022 and for the year ended December 31, 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

11. Event After the Reporting Date

Shelf Registration of P60,000 Fixed Rate Peso-denominated Bonds by SMC Global and Issuance of P40,000 Bonds

On July 26, 2022, SMC Global issued and listed with the Philippine Dealing & Exchange Corp. a total of P40,000 fixed rate Peso-denominated Bonds, the first tranche of the P60,000 shelf registered fixed rate bonds approved by the SEC on July 11, 2022.

The bonds comprised of P5,000 Series K Bonds due 2025, P25,000 Series L Bonds due 2028 and P10,000 Series M Bonds due 2032, with interest rates per annum of 5.9077%, 7.1051% and 8.0288%, respectively.

The proceeds from the issuance of the bonds will be used: (i) to partially finance SMC Global's investments in power-related assets, particularly Liquefied Natural Gas projects and related assets, coal power plant projects, Battery Energy Storage System and solar power plant projects; (ii) for general corporate purposes; and (iii) for payment of transaction-related fees, costs and expenses.

12. Other Matters

a. Commitments

The outstanding purchase commitments of the Group amounted to P263,135 and P154,461 as at June 30, 2022 and December 31, 2021, respectively.

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

- b.** There were no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- c.** There were no material changes in estimates of amounts reported in prior financial years.
- d.** The effects of Coronavirus Disease 2019 pandemic and Russia-Ukraine conflict in the performance of the Group for the first semester of 2022 are discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.
- e.** Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2022 and December 31, 2021 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2022 and 2021 for operating efficiency ratios.

	June 2022	December 2021
<u>Liquidity:</u>		
Current Ratio	1.23	1.36
Quick Ratio	0.78	0.88
<u>Solvency:</u>		
Debt to Equity Ratio	2.25	2.01
Asset to Equity Ratio	3.25	3.01
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	(0.15%)	4.09%
Interest Rate Coverage Ratio	2.20	2.34
Return on Assets	1.80%	2.43%
	Period Ended June 30	
	2022	2021
<u>Operating Efficiency:</u>		
Volume Growth	22%	2%
Revenue Growth	73%	16%
Operating Margin	12%	15%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right)^{-1}$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right)^{-1}$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.



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 Corporation (“SMC” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the period ended June 30, 2022 (with comparative figures as at December 31, 2021 and for the period ended June 30, 2021). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2022, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. 2022 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

▪ **SMC SLEX Holdings Company Inc. (SSHCI, formerly MTD Manila Expressways Inc.)**

On various dates in 2022, SSHCI availed of a total of P10,000 million term loan from the P20,000 million term loan facility agreement executed in December 3, 2021 with various local banks. The loan is subject to a floating interest rate and will mature on January 3, 2025. The proceeds of the loan will be used for capital projects and investments.

▪ **Petron Corporation (Petron)**

On May 19, June 15 and 16, 2022, Petron availed of a total of P15,000 million term loans for the: (a) partial financing of Refinery’s Solid Fuel-Fired Boiler Power Plant project, (b) payment of the remaining US\$142 million balance of the US\$1,000 million term loan facility which matured on June 28, 2022, and (c) payment of the principal amortizations of the P10,000 million loan facility and other existing loans due in July 2022. The P15,000 million term loan is divided into three P5,000 million loans, each with a term of five years and subject to fixed interest rates. The term loans will mature on May 19, June 15 and 16, 2027, respectively.

FOREIGN-CURRENCY DENOMINATED LOANS

▪ **SMC Global Power Holdings Corp. (SMC Global)**

- a. On January 21, 2022, SMC Global availed of a US\$200 million term loan from the loan facility agreement with a foreign bank executed on September 8, 2021. Proceeds of the loan were used mainly for capital expenditures in connection with the expansion projects of SMC Global. The loan is subject to a floating interest rate and will mature on September 2024.

- b. On May 24, 2022, SMC Global availed of a US\$100 million term loan from the loan facility agreement with a group of foreign banks executed on May 18, 2022. Proceeds of the loan were used mainly for working capital requirements of the Battery Energy Storage Systems (BESS) and Liquefied Natural Gas (LNG) Projects and for general corporate requirements. The loan is subject to a floating interest rate and will mature on May 2025.

- **SMC**

- a. On February 18 and April 20, 2022, SMC availed of a total of US\$450 million term loan from the US\$900 million loan facility agreement executed on October 21, 2021 for general corporate purposes. The loan is subject to a floating interest rate and will mature on October 21, 2026.
- b. On June 28, 2022, SMC availed of a US\$50 million term loan from the US\$700 million loan facility agreement executed on March 28, 2022 for general corporate purposes. The loan is subject to a floating interest rate and will mature on March 24, 2027.

ISSUANCE OF FIXED RATE PESO-DENOMINATED BONDS

Issuance of P30,000 Million Fixed Rate Bonds by SMC

On March 4, 2022, SMC issued and listed on the Philippine Dealing & Exchange Corporation (PDEx) P17,440 million Series J and P12,560 million Series K Fixed Rate Peso-denominated Bonds from the P60,000 million Shelf Registered Fixed Rate Bonds. The bonds are due on March 2027 and 2029 with interest rates per annum of 5.2704% and 5.8434%, respectively.

The proceeds from the issuance of the Bonds were used to settle the short-term loan facility availed for the redemption of Subseries “2-C” and Subseries “2-E” Preferred Shares on September 21, 2021.

PAYMENT OF FIXED RATE PESO-DENOMINATED BONDS

- **SMC**

On March 1 and April 7, 2022, SMC paid its Series A and D Fixed Rate Peso-denominated Bonds amounting to P6,683 million and P10,000 million, respectively. The Series A Bonds which form part of the P20,000 million Series ABC Bonds and the Series D Bonds issued by SMC in 2017 also matured on their respective payment dates.

The Series A and D Bonds were paid using the proceeds from short-term loan facilities.

- **SMC Global**

On April 25, 2022, SMC Global paid its P13,845 million Series H Fixed Rate Peso-denominated Bonds which matured on the same date. The Series H Bonds, which form part of the P30,000 million Series HIJ Fixed Rate Bonds were issued in 2019 by SMC Global.

The Series H Bonds were paid partly from the proceeds of short-term loan facilities and from cash generated from operations.

- **San Miguel Brewery Inc. (SMB)**

On April 4, 2022, SMB paid its Series F Fixed Rate Peso-denominated Bonds amounting to P7,000 million, which matured on the same day. The Series F Bonds, which form part of the P20,000 million Series DEF Fixed Rate Bonds were issued in 2012 by SMB.

The payment was funded by the proceeds from the P7,000 million term loan availed on April 1, 2022 from a local bank. The loan is subject to a fixed interest rate and will mature in 2025 and 2027.

- **SMC SLEX Inc. (SMC SLEX)**

On May 22, 2022, SMC SLEX paid its Series B Fixed Rate Peso-denominated Bonds amounting to P2,400 million, which matured on the same day. The Series B Bonds form part of the P7,300 million fixed rate bonds issued by SMC SLEX in 2015.

The Series B Bonds were paid using internally generated funds.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the first semester of 2022, the Group paid a total of P13,285 million of its scheduled amortizations and maturing obligations funded by cash generated from operations.

Petron, Energy, Infrastructure, Packaging, Food and Beverage and SMC paid a total of P4,031 million, P3,900 million, P3,733 million, P1,447 million, P94 and P80 million, respectively, of their maturing obligations.

EVENT AFTER THE REPORTING DATE

On July 26, 2022, SMC Global issued and listed with the PDEX a total of P40,000 million Fixed Rate Peso-denominated Bonds, the first tranche of the P60,000 million shelf registered fixed rate bonds approved by the Securities and Exchange Commission on July 11, 2022.

The bonds comprised of P5,000 million Series K Bonds due 2025, P25,000 million Series L Bonds due 2028 and P10,000 million Series M Bonds due 2032, with interest rates per annum of 5.9077%, 7.1051% and 8.0288%, respectively.

The proceeds from the issuance of the bonds will be used: (i) to partially finance SMC Global's investments in power-related assets, particularly LNG projects and related assets, coal power plant projects, BESS and solar power plant projects; (ii) for general corporate purposes; and (iii) for payment of transaction-related fees, costs and expenses.

II. FINANCIAL PERFORMANCE

2022 vs. 2021

	June		Horizontal Analysis Increase (Decrease)		Vertical Analysis	
	2022	2021	Amount	%	2022	2021
<i>(In Millions)</i>						
Sales	P711,416	P410,124	P301,292	73%	100%	100%
Cost of Sales	587,427	312,595	274,832	88%	83%	76%
Gross Profit	123,989	97,529	26,460	27%	17%	24%
Selling and Administrative Expenses	(38,131)	(36,513)	(1,618)	(4%)	(5%)	(9%)
Operating Income	85,858	61,016	24,842	41%	12%	15%
Interest Expense and Other Financing Charges	(25,633)	(23,539)	(2,094)	(9%)	(4%)	(6%)
Interest Income	2,313	1,674	639	38%	0%	0%
Equity in Net Earnings of Associates and Joint Ventures	725	320	405	127%	0%	0%
Gain on Sale of Property and Equipment	2	129	(127)	(98%)	0%	0%
Other Charges - Net	(32,386)	(1,908)	(30,478)	(1597%)	(4%)	(0%)
Income Before Income Tax	30,879	37,692	(6,813)	(18%)	4%	9%
Income Tax Expense	11,074	8,122	2,952	36%	1%	2%
Net Income	P19,805	P29,570	(P9,765)	(33%)	3%	7%
Net Income (Loss) Attributable to Equity Holders of the Parent Company	(P1,341)	P13,070	(P14,411)	(110%)	(0%)	3%
Net Income Attributable to Non-controlling Interests	21,146	16,500	4,646	(28%)	3%	4%
Net Income	P19,805	P29,570	(P9,765)	(33%)	3%	7%

The Group's consolidated sales for the first half of 2022 rose 73% to P711,416 million from P410,124 million of the same period last year, backed by continuous volume growth and better selling prices across all businesses.

The Group's cost of sales increased by 88% mainly due to: (a) higher cost per liter of fuel products and significant increase in sales volume of Petron, (b) higher cost of coal and higher power purchases of the Energy business, and (c) higher sales volumes and increase in prices of raw materials of the Food and Beer and Non-alcoholic Beverages (NAB) Divisions of the Food and Beverage business.

Consolidated operating income rose by 41% to P85,858 million compared to last year due significantly to the improved performance of Petron together with the sustained performance during the second quarter of the Food and Beverage, Infrastructure and Packaging businesses. This was however tempered by the impact of high coal prices for the Energy business.

The increase in interest expense and other financing charges was mainly due to the higher average loan balance of SMC and Infrastructure business, partly offset by the decrease in Energy business due to the declining outstanding lease liabilities of entities under the Independent Power Producer Administration (IPPA) Agreements and long-term debt.

The increase in interest income was mainly due to the higher interest rates on cash and cash equivalents of SMC and higher balance of short-term placements of the Energy business.

The increase in equity in net earnings of associates and joint ventures was mainly due to the share on the higher net income of Manila North Harbour Port Inc. (MNHPI) and Bank of Commerce and the lower net loss of Angat Hydropower Corporation (Angat Hydro).

The lower gain on sale of property and equipment was mainly due to the gain on the disposal of properties by San Miguel China Investment Co. Ltd. (SMCIC) which was recognized in 2021.

Other charges - net increased primarily due to the: (a) higher loss on foreign exchange from the revaluation of foreign-currency denominated net liabilities of the Group, as a result of the higher depreciation of the Philippine Peso against the US Dollar in June 2022, and (b) higher loss on commodity hedging, partly offset by the gain on currency hedging of Petron.

The higher income tax expense of the Group in 2022 was primarily due to the: (a) adjustment made in the first quarter of 2021 for the impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law in 2020 which reduced income tax expense by P3,607 million in the first quarter of 2021 and (b) the higher taxable income from the improved performance of Petron and the Beer and NAB division under the Food and Beverage business. This was partly offset by the recognition of deferred tax benefit by SMC from unrealized foreign exchange loss in 2022 compared to an income tax expense in 2021.

Consolidated net income amounted to P19,805 million, lower by 33% versus last year, mainly due to higher foreign exchange losses. Excluding the effect of foreign exchange movement this year and the impact of CREATE Law for 2020 reflected in 2021, consolidated net income would have been P32,489 million, 24% higher than the comparable amount last year.

The share of non-controlling interests (NCI) on the Group's net income increased in the first semester of 2022 compared to the same period in 2020 mainly due to the higher net income of Petron and the Food and Beverage business and higher amount of distribution on SMC Global's Senior Perpetual Capital Securities (SPCS).

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

1) FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc. (SMFB) for the first half posted consolidated sales of P172,122 million, a 17% increase over the same period last year, mainly driven by volume growth and better selling prices across the Beer and NAB, Spirits and Food divisions.

SMFB's consolidated operating income reached P26,567 million, 15% higher than the same period in 2021. Net income rose 8% to P18,758 million.

a) Beer and NAB Division

SMB's first half volumes rose 11% reaching 108.2 million cases, mainly driven by the positive impact of relaxed mobility, and rapid reopening of markets in both domestic and international operations. Consolidated sales amounted to P64,985 million, up 20% from the same period last year.

Operating income and net income ended at P14,726 million and P10,656 million, higher by 22% and 12% from the same period of the previous year, respectively.

Domestic Operations

Domestic operation's volumes for the first six months ended at 95.9 million cases, up 10% on the back of more relaxed restrictions and expanded mobility beginning end of March, paving the way to the reopening of on-premise and penetration outlets. The second quarter saw a big recovery, posting 28% growth versus the 6% decline in the first quarter.

Sales and operating income amounted to P58,409 million and P13,652 million, 18% and 19% higher from last year, respectively.

Increase in outdoor activities of consumers, volume generating activities in traditional and modern trade channels further boosted sales. This was supported by the continued new thematic campaigns from core brands such as Pale Pilsen's "*Beer Call Tawanan Special*" television episodes, backed by the ongoing "*Gintong Dagat*" and "*Beer Call*" campaigns and new digital materials for "*Sarap Laging Kasama*", Red Horse' sustained airing of "*Guzzle*" and "*Spirit Horse*" campaigns, with a new campaign for entry point drinkers called "*Una*", and San Mig Light's newly released "*Speakeasy*" podcast episodes supported by ongoing "*Bright Side*" campaign and online content buckets.

International Operations

International operations meanwhile continue to record robust performance during the first six months of the year, with volumes posting 24% growth. Consistent volume gains were recorded from Thailand, Indonesia and Export businesses, while Hong Kong, South China and Vietnam continue to face challenges.

b) Spirits Division

Ginebra San Miguel Inc. (GSMI) sustained its consistent growth during the first half of the year. Consolidated sales reached P23,148 million, 14% higher than the same period last year. This was achieved by higher volumes which ended at 22 million cases, 9% better than last year's level, mainly driven by on-ground selling efforts and GSMI's successful "*Hanggang Huling Patak*" thematic campaign which continue to resonate well with consumers, and GSM Blue's ongoing "*Choose What's True*", coupled with Vino Kulafu's "*Kusog Kulafu Buenas Grasya*" consumer promo.

While challenged by logistics and material cost hikes, operating income grew 25% to P3,271 million, helped by higher selling price, better operational efficiencies and fixed cost management. Net income amounted to P2,483 million, 19% higher from same period in 2021.

c) Food Division

The Food division sustained its topline performance during the first six months of 2022, posting consolidated revenues of P83,993 million, growing by 16% versus the previous year's comparative period despite a very challenging environment. Rising raw material costs triggered by supply chain constraints made it imperative to increase prices, yet volumes in most businesses continued to post growth.

Topline gains mitigated the impact of skyrocketing costs of raw materials, fuel and power, and were supported by cost containment measures and optimum utilization of company owned facilities. Thus, operating income amounted to P8,610 million, surpassing last year's performance by 3%. This was brought about by a 16% improvement during the second quarter compared to the 8% decline in the first quarter.

Net income stood at P6,052 million, down 2% compared to last year's level, largely affected by the impact of peso depreciation, as well as interest expenses related to its expansion projects.

The Animal Nutrition and Health segment posted revenues of P21,045 million, 31% higher than the first half last year, on account of sustained volume growth and higher selling prices. While global commodity supplies remained tight and drove raw material costs to unprecedented highs, internal supply flexibility and a commitment to maintain quality feeds through new company owned facilities, allowed the business to protect and expand market share.

The Protein segment, consisting of Poultry and Meats businesses, delivered revenues of P34,223 million, up 3% from last year. Poultry's sales grew 7% from same period last year, driven by record high selling prices triggered by a tight supply situation. A confluence of factors such as erratic weather conditions and a longer growing period led to shortage of chicken supply in June, while the reopening of the economy triggered a surge in demand, specifically in food service. Available supply was channeled to Magnolia branded chicken to protect share while also promoting the *Timplados* line of marinated chicken to enhance sales mix. Meats revenues meanwhile remained lower given the deliberate move to downsize hog operations due to the African Swine Fever.

Prepared and Packaged Food segment's consolidated sales grew by 13% to P21,369 million from same period in 2021, mainly driven by consistent growth from the processed meats business led by its flagship products - *Tender Juicy* Hotdogs, *Purefoods* Chicken Nuggets, *Purefoods* Native Line, *Veega* and its canned products. Magnolia dairy, spreads and Coffee also saw a strong rebound during the second quarter.

The Flour segment sustained its strong revenue delivery posting a 48% growth at P8,171 million versus the same period last year. Volume achievement was notable in spite of considerable price increase implemented to recover the high cost of wheat.

2) PACKAGING

The Packaging business maintained its growth momentum during the first six months of the year as consolidated sales rose 10%, at P16,080 million. This was driven by better performances from its metal crowns, cans, plastics, logistics services and beverage filling operations on the back of sustained volumes from food and beverage companies, coupled with high packaging requirements from its Malaysia, Australia and New Zealand markets.

With this, operating income ended at P959 million, 56% higher compared to the same period last year.

3) ENERGY

SMC Global's offtake volumes for the first half of 2022 reached 14,336 gigawatt hours (Gwh), a 6% growth versus same period last year mainly driven by improvements in Manila Electric Company (Meralco) nominations, increase in demand from distribution utilities and contestable customers, and the commencement of its 20MW Kabankalan BESS' commercial operations. Consolidated sales grew 70% to P102,581 million, from P60,279 million in the previous year mainly brought about by the increase in average bilateral rates attributable to higher fuel prices driven by rising coal prices as well as improvement in offtake volumes.

As coal prices continue to remain high, power purchases cost also increased during the period due to exposure to high Wholesale Electricity Spot Market (WESM) prices, particularly in

January when there were simultaneous multiple plant shutdowns in Luzon and the deration of Ilijan Power Plant due to gas supply restriction and its shutdown for inspection, minor repairs and upgrades following the expiration of the IPPA Agreement with Power Sector Assets and Liabilities Management Corporation (PSALM) last June 4, 2022. In addition, SMC Global also has absorbed the significant increase in coal prices. Consequently, operating income declined by 26% to P12,750 million from last year's P17,158 million.

With lower margin and recognition of foreign exchange losses, SMC Global incurred a net loss of P1,880 million, behind by 115% from the previous year.

4) FUEL AND OIL

Petron continues its strong performance in the first half of the year posting higher sales amounting to P398,517 million, surpassing last year's P174,131 million by 129%. Consolidated sales volume from its Philippine and Malaysian operations grew 34% to 51.4 million barrels on the back of strong recovery in demand and fading pandemic concerns. Sales volumes grew across all trades, with commercial sales posting the highest increase as more industries, including aviation travel, rebounded from the impacts of the pandemic. Petron's retail business also grew by almost 30% driven by strong sales of its premium gasoline and diesel fuels. In addition, sales of lubricant products, Jet-A1, liquefied petroleum gas, and petrochemicals similarly showed strong growth compared to the same period last year.

From January to June, Dubai crude oil prices averaged US\$102.00 per barrel as supply concerns persisted due to geopolitical conflicts.

Refining margins and subsequently finished product prices, likewise surged in the second quarter as Petron increased production from the refinery. This is combined with significant improvements from its Malaysian operations. Gains however were partly offset by lower marketing margins resulting from escalating price competition in the market. In addition, higher financing costs were incurred due to increase in working capital requirements.

Operating income grew 79% to P16,016 million while net income doubled to P7,706 million compared to last year's P3,873 million. This has already surpassed full year 2021 profit.

5) INFRASTRUCTURE

The Infrastructure business' traffic volumes grew 37% in the first half, as travel and mobility are almost at pre-pandemic level and outdoor activities increased since the end of March. With this, consolidated revenues ended at P13,425 million, 58% higher than last year's levels.

Operating income rose by 160% to P6,018 million, as a result of sustained double-digit volume growth of all operating toll roads and better margins.

2021 vs. 2020

	June		Horizontal Analysis Increase (Decrease)		Vertical Analysis	
	2021	2020	Amount	%	2021	2020
<i>(In Millions)</i>						
Sales	P410,124	P352,796	P57,328	16%	100%	100%
Cost of Sales	312,595	299,682	12,913	4%	76%	85%
Gross Profit	97,529	53,114	44,415	84%	24%	15%
Selling and Administrative Expenses	(36,513)	(38,186)	1,673	4%	(9%)	(11%)
Operating Income	61,016	14,928	46,088	309%	15%	4%
Interest Expense and Other Financing Charges	(23,539)	(26,571)	3,032	11%	(6%)	(8%)
Interest Income	1,674	3,794	(2,120)	(56%)	0%	1%
Equity in Net Earnings (Losses) of Associates and Joint Ventures	320	(54)	374	693%	0%	(0%)
Gain (Loss) on Sale of Property and Equipment	129	(404)	533	132%	0%	(0%)
Other Income (Charges) - Net	(1,908)	6,309	(8,217)	(130%)	(0%)	2%
Income (Loss) Before Income Tax	37,692	(1,998)	36,690	1986%	9%	(1%)
Income Tax Expense	8,122	1,990	6,132	308%	2%	0%
Net Income (Loss)	P29,570	(P3,988)	P33,558	841%	7%	(1%)
Net Income (Loss) Attributable to Equity Holders of the Parent Company	P13,070	(P7,593)	P20,663	272%	3%	(2%)
Net Income Attributable to Non-controlling Interests	16,500	3,605	12,895	358%	4%	1%
Net Income (Loss)	P29,570	(P3,988)	P33,588	841%	7%	(1%)

The Group's consolidated sales increased by 16% for the first semester of 2021, at P410,124 million mainly driven by higher sales from Petron and the Energy business combined with higher volumes, favorable selling prices and better sales mix of the Food and Beverage business.

Consolidated gross profit increased by 84% to P97,529 million in the first semester of 2021 compared to P53,114 million of the same period in 2020 mainly attributable to the turnaround of Petron to a gross profit in 2021 from a gross loss in 2020. Dubai crude prices significantly improved from an average of US\$50 per barrel in December 2020 to an average of US\$72 per barrel in June 2021, resulting to net inventory gains in 2021 compared to substantial inventory losses in 2020. The resumption of Bataan refinery operations at the back of favorable prices also contributed to the improved performance of Petron. The increase in the Group's gross profit was also attributable to the higher sales of the Food and Beverage business.

Consolidated operating income surged by 309% to P61,016 million, from the comparable period in 2020 of P14,928 million brought about by improved margins, effective Group-wide cost savings initiatives and continuous improvement in operational efficiencies.

The decrease in interest expense and other financing charges was mainly due to the lower average interest rate and borrowing level of Petron and SMC.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and cash equivalents.

The increase in equity in net earnings (losses) of associates and joint ventures was mainly due to the lower share in the net loss of Angat Hydro and higher share in the net income of MNHPI. The increase was partly offset by the share in the net income of Northern Cement Corporation (NCC) in 2020.

The gain on sale of property and equipment in 2021 mainly represents the gain on the disposal of properties by SMCIC. The loss in 2020 mainly represents the retirement by San Miguel Yamamura Packaging Corporation of the fixed assets in its Manila Plastics Plant which were damaged by the fire incident in Pandacan, Manila in February 2020. The loss represents a 7% addition in the Group's total net loss for the first semester of 2020.

Other charges - net in 2021 was mainly due to the commodity hedging loss of Petron, partly offset by San Miguel Energy Corporation's recognition of income from PSALM fixed fee reduction for the extended outages of Sual Power Plant's Units 1 and 2. Other income - net in 2020 consists mainly of the settlement received by the Energy business from third party contractors on account of damages arising from the latter's nonfulfillment of obligations under procurement-related contracts and the gain on foreign exchange from the revaluation of foreign-currency denominated net liabilities of the Group.

The increase in income tax expense was due to higher income tax expense of the Group in 2021 as a result of the turnaround of Petron resulting to an income tax expense in June 2021 compared to income tax benefit in the same period of 2020. The increase was also due to the higher taxable income of the Food and Beverage business. This was partly offset by the impact of the adoption of CREATE Law in 2021 and 2020, which reduced income tax rate from 30% to 25%.

The Group has sustained its growth momentum throughout the first six months of 2021, registering a net income of P29,570 million, 841% higher and a significant turnaround from the P3,988 million net loss in the same period of 2020, as all major businesses posted robust recoveries amid the continuing Coronavirus Disease 2019 restrictions nationwide.

The share of NCI on the Group's net income increased in the first semester of 2021 compared to the same period in 2020 mainly due to the: (a) net income of Petron in 2021 compared to net loss in 2020, (b) higher net income of the Food and Beverage business, and (c) higher amount of distribution on SMC Global's SPCS.

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

1) FOOD AND BEVERAGE

SMFB generated consolidated sales of P146,791 million in the first half of 2021, a 20% improvement from P122,815 million of the same period in 2020, on account of continuous volume improvements and better selling prices from the Food and Beer and NAB divisions and sustained all-time high volumes from the Spirits division.

Consolidated operating income rose 103% to P23,042 million, while net income grew by 137% to P17,363 million.

a) Beer and NAB Division

SMB posted a strong volume growth in the second quarter of 2021, resulting in a 15% increase in consolidated volumes to 97.4 million cases for the first half of 2021. Correspondingly, consolidated revenues grew 27% to P54,332 million.

Combined with effective cost management initiatives, operating income grew 64% to P12,077 million. Net income rose 89% to P9,507 million.

Domestic Operations

Domestic operations registered a very encouraging second quarter in 2021, posting almost 82% volume growth versus same period in 2020, reversing its 13% volume decline in the first quarter of 2021. This led volumes for first half of 2021 to grow 16% to 87.5 million cases, despite the ongoing various community lockdowns and liquor bans throughout the National Capital Region and neighboring provinces and stricter quarantine protocols from end-March to mid-May of 2021. Revenues amounted to P49,422 million, up 29% while operating income grew 60% to P11,450 million versus the comparable period in 2020.

Marketing campaigns such as “*Beer Call Muna Tayo*” for SMB Pale Pilsen, “*Lakas*” for Red Horse and “*Imagine*” for San Mig Light boosted sales further, pushed further by penetration programs which helped drive Domestic Operations’ topline sales and likewise protected market share.

International Operations

International operations likewise posted higher revenues in the first half of 2021, mainly driven by higher volumes particularly in Indonesia, South China and the Exports business. Average net selling prices also improved on account of favorable product and channel mix. Operating income also grew 230% from the comparable period in 2020.

b) Spirits Division

GSMI further solidified its growth momentum with domestic volumes reaching 20.1 million cases, surpassing first half of 2020 level by 21%. Consolidated revenues were likewise up 36% to P20,228 million. GSMI continued its focus on delivering relevant marketing campaigns and consumer promos, expanding distribution, and sustaining efficiencies across its supply chain.

Consolidated operating income rose by 45% in the first half of 2021 to P2,614 million, while net income ended at P2,087 million, a 66% improvement from the comparable period in 2020.

c) Food Division

The Food division delivered a strong first half in 2021, posting consolidated revenues of P72,236 million, an 11% increase from the same period in 2020. Growth was driven by the robust performance of the Protein and Animal Health and Nutrition segments boosted by positive pricing and volume gains.

Consolidated operating income grew 272% to P8,359 million from 2020.

The Protein segment, comprised of the Magnolia Chicken and Monterey Meats businesses, sustained its strong recovery with revenues accelerating by 20% to P33,104 million in the first half of 2021. Volumes grew as supermarkets and lechon manok outlets maintained normal operations. Sales to food service accounts have also increased since the re-opening of more than 90% of food service outlets. Moreover, incremental sales from community resellers continued, contributing average daily sales of 185 Metric Tons, 15-fold increase from the start of the program in April 2020. Meanwhile, favorable chicken prices continued to enhance poultry revenues, with average selling prices tracking above pre-pandemic levels.

The Animal Nutrition and Health segment sustained its growth trend as revenues grew 11% to P16,101 million, owing to strong demand for free-range fowl, layer feeds and duck and aquatic feeds. Volumes continued to grow double digit levels which was boosted by increased breeding activities of free-range fowl, launch of Integra 3000 Plus and increased requirements from directly served farm accounts. This was further fueled by aggressive market penetration efforts, market share grab from competition and superior product quality from the new feedmills.

The Prepared and Packaged Food segment's consolidated revenues of P18,979 million was relatively flat for the first half of 2021 versus 2020, following pantry loading induced growth in 2020. Nevertheless, *Tender Juicy* hotdogs continued to grow double-digit while total industry volume of hotdogs declined. Other categories such as nuggets, native line and bacon also experienced growth vis-à-vis the industry during the period. Meanwhile, dairy products sales declined due to lesser home baking occasions, as consumers returned to work, softening demand for butter, margarine and cheese. Leading brands, Magnolia butter, Star margarine, Dari Crème, Cheezee and Magnolia pancake mixes however continued to deliver growth as compared to declining industry volumes based on Nielsen's 2021 data.

The Flour segment maintained its growth momentum, registering revenues of P5,517 million, up by 9% as dealers sustained double-digit sales growth, mainly driven by new accounts and recovery in existing customers' operations.

2) PACKAGING

The Packaging business' consolidated revenues for the first half of 2021 totaled P14,617 million, slightly higher than P14,512 million reported in the same period of 2020 which was lifted by higher sales from the Metal crown, two-piece aluminum cans and flexibles businesses offset by reduced sales from the glass and plastics businesses due to lower demand from key beverage customers and challenges in Australia, Malaysia and Vietnam which again imposed lockdowns in June 2021.

Operating income amounted to P614 million for the first six months of 2021, a notable improvement of 93% versus the P318 million from the same period in 2020, primarily due to focus on cost reduction and rationalization of workforce initiatives.

3) ENERGY

SMC Global recorded off-take volumes of 13,552 Gwh and consolidated revenues amounting to P60,279 million in the first half of 2021, both representing a 5% growth over the same period in 2020, driven by higher spot volumes and improved nominations from customers.

Operating income declined 5% to P17,158 million due to higher purchase volumes resulting from gas supply restrictions for the Ilijan Power Plant and outages in the Sual Power Plant. Net income rose 35% to P12,219 million.

4) FUEL AND OIL

Petron achieved a consolidated net income of P3,873 million in the first half of 2021, an outstanding improvement from the P14,236 million net loss reported in the same period of 2020. With continued price recovery, consolidated revenues rose 14% to P174,131 million. Consolidated sales volumes were still down by 7% to 38.9 million barrels from 41.9 million barrels in 2020, as fuel consumption in the commercial sector, particularly the aviation industry, remained restrained.

Consolidated operating income increased by 162% to P8,948 million from a loss of P14,543 million in 2020. Domestic operations contributed P5,595 million, while Malaysia was at P3,353 million.

5) INFRASTRUCTURE

The Infrastructure business generated revenues of P8,485 million for the first half of 2021, up 27% from 2020. Average daily traffic flow in all operating toll roads continue to improve. Operating income grew 144% to P2,319 million.

The Skyway Stage 3 project, which was opened to the public on January 14, 2021 started collecting toll fees only on July 12, 2021.

III. FINANCIAL POSITION

2022 vs. 2021

	June	December	Horizontal Analysis Increase (Decrease)		Vertical Analysis	
	2022	2021	Amount	%	2022	2021
	<i>(In Millions)</i>					
Cash and cash equivalents	P302,944	P300,030	P2,914	1%	14%	15%
Trade and other receivables - net	222,189	161,808	60,381	37%	10%	8%
Inventories	183,802	141,209	42,593	30%	8%	7%
Current portion of biological assets - net	3,405	3,106	299	10%	0%	0%
Prepaid expenses and other current assets	119,028	108,689	10,339	10%	5%	5%
Total Current Assets	831,368	714,842	116,526	16%	37%	35%
Investments and advances - net	57,293	55,002	2,291	4%	3%	3%
Investments in equity and debt instruments	42,028	41,966	62	0%	2%	2%
Property, plant and equipment - net	645,000	567,609	77,391	14%	29%	28%
Right-of-use assets - net	114,055	163,364	(49,309)	(30%)	5%	8%
Investment property - net	70,627	69,825	802	1%	3%	3%
Biological assets - net of current portion	2,592	2,244	348	16%	0%	0%
Goodwill - net	130,492	130,081	411	0%	6%	6%
Other intangible assets - net	209,078	190,979	18,099	9%	9%	9%
Deferred tax assets	19,295	17,141	2,154	13%	1%	1%
Other noncurrent assets - net	100,073	98,600	1,473	1%	5%	5%
Total Noncurrent Assets	1,390,533	1,336,811	53,722	4%	63%	65%
Total Assets	P2,221,901	P2,051,653	P170,248	8%	100%	100%
Loans payable	P242,147	P190,779	P51,368	27%	11%	9%
Accounts payable and accrued expenses	243,347	194,579	48,768	25%	11%	10%
Lease liabilities - current portion	20,204	23,423	(3,219)	(14%)	1%	1%
Income and other taxes payable	33,251	23,102	10,149	44%	1%	1%
Dividends payable	4,261	4,296	(35)	(1%)	0%	0%
Current maturities of long-term debt - net of debt issue cost	133,193	88,857	44,336	50%	6%	4%
Total Current Liabilities	676,403	525,036	151,367	29%	30%	25%

Forward

	June	December	Horizontal Analysis Increase (Decrease)		Vertical Analysis	
	2022	2021	Amount	%	2022	2021
<i>(In Millions)</i>						
Long-term debt - net of current maturities and debt issue costs	P747,909	P725,108	P22,801	3%	34%	35%
Lease liabilities - net of current portion	63,886	71,569	(7,683)	(11%)	3%	4%
Deferred tax liabilities	30,653	28,742	1,911	7%	1%	1%
Other noncurrent liabilities	20,387	19,959	428	2%	1%	2%
Total Noncurrent Liabilities	862,835	845,378	17,457	2%	39%	42%
Capital stock - common	P16,443	P16,443	-	0%	1%	1%
Capital stock - preferred	10,187	10,187	-	0%	0%	0%
Additional paid-in capital	177,719	177,719	-	0%	8%	9%
Capital securities	28,171	28,171	-	0%	1%	1%
Equity reserves	15,577	14,136	1,441	10%	1%	1%
Retained earnings:						
Appropriated	63,437	66,630	(3,193)	(5%)	3%	3%
Unappropriated	154,383	157,707	(3,324)	(2%)	7%	8%
Treasury stock	(144,363)	(144,363)	-	0%	(6%)	(7%)
Equity Attributable to						
Equity Holders of						
the Parent Company	321,554	326,630	(5,076)	(2%)	15%	16%
Non-controlling Interests	361,109	354,609	6,500	2%	16%	17%
Total Equity	682,663	681,239	1,424	0%	31%	33%
Total Liabilities and Equity	P2,221,901	P2,051,653	P170,248	8%	100%	100%

Consolidated total assets as at June 30, 2022 amounted to about P2,221,901 million, P170,248 million higher than December 31, 2021. The increase was primarily due to higher balance of trade and other receivables, inventories, property, plant and equipment and other intangible assets, partly offset by the decrease in right-of-use assets.

The increase in trade and other receivables - net by P60,381 million was mainly attributable to the higher receivables from the Malaysian Government under the Automatic Pricing Mechanism of Petron Malaysia and higher trade customer balances of Petron and the Energy business.

The increase in inventories by P42,593 million was mainly due to the: (a) higher prices of both crude oil and finished products of Petron and higher cost of coal shipments of the Energy business brought about by the significant increase in coal prices.

The increase in total biological assets by P647 million was due to higher volume of chicken loaded in the farm.

The increase in prepaid expenses and other current assets by P10,339 million was primarily due to the: (a) additional restricted cash funding for the payment of long-term debt of Energy and Infrastructure businesses, (b) higher specific tax and product replenishment claims and unused creditable withholding taxes of Petron, and (c) higher input taxes of the Energy business from vatable purchases for the period.

The increase in property, plant and equipment by P77,391 million and the decrease in right-of-use assets of P49,309 million were mainly due to the reclassification by South Premiere Power Corporation (SPPC) of the Ilijan Power Plant from right-of-use assets to property, plant and equipment following the end of its IPPA agreement with PSALM and subsequent acquisition in June 2022, including direct attributable costs. The increase in property, plant and equipment was also due to the costs of the ongoing projects of the Energy and Cement businesses and the Food and Beer and NAB divisions of the Food and Beverage business.

The increase in other intangible assets by P18,099 million was mainly due to additions to concession rights for the MIA Project and the costs of the various ongoing projects of the Infrastructure business, partly offset by the total amortization for the period.

The increase in deferred tax assets by P2,154 million was mainly due to the recognition by SMC of deferred tax on unrealized foreign exchange loss primarily from the translation of its foreign-currency denominated long-term debt.

The increase in loans payable by P51,368 million was mainly due to the net availment by Petron for working capital requirements and SMC Global for the payment of Series H Bonds and general corporate requirements.

The increase in accounts payable and accrued expenses by P48,768 million was mainly due to: (a) higher liabilities for crude oil and petroleum products of Petron and purchases of power and coal of Energy business on account of the increase in prices as at June 30, 2022 versus December 31, 2021, and (b) higher outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in income and other taxes payable by P10,149 million was mainly due to higher Value Added Tax and withholding tax payable of the Energy business, higher excise tax liability of Petron Philippines and higher taxable income of Petron Malaysia.

The increase in total long-term debt, net of debt issue costs by P67,137 million was primarily due to the issuance of P30,000 million fixed rate Peso-denominated bonds by SMC, availment of Peso and foreign term loans and translation adjustments by the Group. The increase was partly offset by the payment of fixed rate Peso-denominated bonds of SMC, SMC Global and SMC SLEX and payment by the Group of other maturing obligations.

The decrease in total lease liabilities by P10,902 million was primarily due to the payments made to PSALM, partly offset by foreign exchange loss and interest expense recognized for the period by the Energy business' entities under the IPPA Agreements.

The increase in deferred tax liabilities by P1,911 million was mainly due to the higher deferred tax liability recognized by the Energy business arising from the differences in actual PSALM payments over finance lease liability-related expenses.

The increase in equity reserves by P1,441 million pertains mainly to the currency translation adjustments for the period resulting from the depreciation of the Philippine Peso against the US Dollar.

The decrease in appropriated retained earnings by P3,193 million was due to the reversal of appropriation by SMB for the payment of Series F Bonds which matured in April 2022 and SPPC for the portion of paid fixed monthly payments to PSALM. The decrease was partly offset by the appropriation by SMC Shipping and Lighterage Corporation for the acquisition of new bulk carriers and vessel.

2021 vs. 2020

	June	December	Horizontal Analysis		Vertical Analysis	
	2021	2020	Increase (Decrease)		2021	2020
			Amount	%		
	<i>(In Millions)</i>					
Cash and cash equivalents	P347,112	P347,209	(P97)	(0%)	18%	18%
Trade and other receivables - net	127,869	124,369	3,500	3%	6%	7%
Inventories	115,408	102,822	12,586	12%	6%	5%
Current portion of biological assets - net	3,428	3,401	27	1%	0%	0%
Prepaid expenses and other current assets	96,041	94,610	1,431	2%	5%	5%
Total Current Assets	689,858	672,411	17,447	3%	35%	35%
Investments and advances - net	49,225	50,495	(1,270)	(3%)	3%	3%
Investments in equity and debt instruments	41,787	41,766	21	0%	2%	2%
Property, plant and equipment - net	529,551	511,624	17,927	4%	27%	27%
Right-of-use assets - net	166,501	169,208	(2,707)	(2%)	9%	9%
Investment property - net	67,739	60,678	7,061	12%	3%	3%
Biological assets - net of current portion	2,060	2,352	(292)	(12%)	0%	0%
Goodwill - net	129,651	129,733	(82)	(0%)	7%	7%
Other intangible assets - net	172,965	169,532	3,433	2%	9%	9%
Deferred tax assets	17,251	20,946	(3,695)	(18%)	1%	1%
Other noncurrent assets - net	86,120	83,462	2,658	3%	4%	4%
Total Noncurrent Assets	1,262,850	1,239,796	23,054	2%	65%	65%
Total Assets	P1,952,708	P1,912,207	P40,501	2%	100%	100%
Loans payable	P161,356	P140,645	P20,711	15%	8%	8%
Accounts payable and accrued expenses	156,340	153,249	3,091	2%	8%	8%
Lease liabilities - current portion	26,722	25,759	963	4%	1%	1%
Income and other taxes payable	19,774	20,998	(1,224)	(6%)	1%	1%
Dividends payable	4,282	4,231	51	1%	0%	0%
Current maturities of long-term debt - net of debt issue cost	90,895	74,502	16,393	22%	5%	4%
Total Current Liabilities	459,369	419,384	39,985	10%	23%	22%

Forward

	June	December	Horizontal Analysis Increase (Decrease)		Vertical Analysis	
	2021	2020	Amount	%	2021	2020
<i>(In Millions)</i>						
Long-term debt - net of current maturities and debt issue costs	P659,641	P692,407	(P32,766)	(5%)	34%	36%
Lease liabilities - net of current portion	78,741	91,278	(12,537)	(14%)	4%	5%
Deferred tax liabilities	26,238	27,749	(1,511)	(5%)	1%	2%
Other noncurrent liabilities	26,784	26,301	483	2%	2%	1%
Total Noncurrent Liabilities	791,404	837,735	(46,331)	(6%)	41%	44%
Capital stock - common	16,443	16,443	-	0%	1%	1%
Capital stock - preferred	10,187	10,187	-	0%	1%	1%
Additional paid-in capital	177,719	177,719	-	0%	9%	9%
Capital securities	28,171	28,171	-	0%	1%	1%
Equity reserves	8,864	10,131	(1,267)	(13%)	1%	1%
Retained earnings:						
Appropriated	68,263	60,155	8,108	13%	3%	3%
Unappropriated	160,954	162,204	(1,250)	(1%)	8%	8%
Treasury stock	(115,146)	(110,146)	(5,000)	(5%)	(6%)	(6%)
Equity Attributable to Equity Holders of the Parent Company	355,455	354,864	591	0%	18%	18%
Non-controlling Interests	346,480	300,224	46,256	15%	18%	16%
Total Equity	701,935	655,088	46,847	7%	36%	34%
Total Liabilities and Equity	P1,952,708	P1,912,207	P40,501	2%	100%	100%

Consolidated total assets as at June 30, 2021 amounted to about P1,952,708 million, P40,501 million or 2% higher than December 31, 2020. The slight increase was primarily due to increase in inventories, property, plant and equipment and investment property.

The increase in inventories by P12,586 million was due to higher prices of crude oil and finished products of Petron Philippines and Malaysia offset by the lower volume of Petron Philippines.

The increase in investment property by P7,061 million was mainly due to the acquisition of various properties by San Miguel Properties, Inc. and San Miguel Holdings Corp.

The decrease in total biological assets by P265 million was mainly due to the decrease in poultry inventory caused by the amortization of farms already in the laying stage and lower unit cost for newly loaded flocks.

The decrease in deferred tax assets by P3,695 million was mainly due to the lower income tax rates on net operating loss carry-over, allowance for impairment of receivables and inventory losses and unrealized gross profit and foreign exchange losses as a result of the implementation of CREATE Law.

The increase in loans payable by P20,711 million was mainly due to the net availments by SMC and Petron for general corporate requirements and refinancing of long-term debt.

The decrease in income and other taxes payable by P1,224 million was mainly due to the lower income tax payable of the Beer and NAB division under the Food and Beverage business as a result

of lower taxable income in June 2021 versus December 2020 coupled with the decrease in income tax rate from 30% to 25%.

The decrease in total long-term debt, net of debt issue costs, by P16,373 million was mainly due to (a) prepayment of the remaining US\$516 million out of the US\$800 million Notes by SMC, (b) prepayment of a total of US\$371 million term loans by Petron, and (c) payment of maturing obligations by the Energy business and Petron. This was partly offset by the (d) total drawdown of P12,900 million long-term corporate notes by SMC Tollways Corporation, (e) availment of P5,000 million and a total of US\$150 million term loans by SMC Global, and (f) drawdown of P7,075 million term loan by San Miguel Northern Cement, Inc. which was subsequently transferred to NCC following the merger on July 1, 2021.

The decrease in deferred tax liabilities by P1,511 million was mainly attributable to the reduction of applicable tax rates as a result of the implementation of the CREATE Law partly offset by the upward movement of temporary differences arising from finance lease-related expenses recognized by the Energy business' entities under the IPPA Agreements.

The decrease in total lease liabilities by P11,574 million was primarily due to the payments made to PSALM by the Energy business' entities under the IPPA Agreements.

The decrease in equity reserves by P1,267 million was mainly due to the redemption of the US\$300 million Undated Subordinated Capital Securities (USCS) by SMC Global and the impact of the CREATE Law on the Group's deferred tax on reserve for retirement plan.

The increase in appropriated retained earnings by P8,108 million was mainly due to the appropriation for the period by (a) SSHCI to fund the construction of the SLEX Toll Road 4 project, (b) SMC SLEX for funding of capital expenditures, and (c) Magnolia, Inc. to fund its Butter, Margarine and Cheese Plant expansion projects, net of Petron's reversal of appropriation for capital projects that were already completed.

The increase in treasury stock by P5,000 million represents the redemption by SMC of the Subseries "2-G" Preferred Shares.

The increase in NCI by P46,256 million was mainly due to the (a) issuance of US\$600 million and US\$550 million SPCS by SMC Global and Petron, respectively, and (b) share of NCI on the Group's net income. This was partly offset by the share of NCI on cash dividends and distributions declared and by the redemption by SMC Global of its US\$300 million USCS.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2022	2021
Net cash flows provided by operating activities	P7,072	P36,320
Net cash flows used in investing activities	(65,915)	(41,610)
Net cash flows provided by financing activities	53,195	2,313

Net cash flows provided by operating activities for the period basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities included the following:

<i>(In millions)</i>	June 30	
	2022	2021
Additions to property, plant and equipment	(P33,465)	(P27,205)
Additions to intangible assets	(19,881)	(4,800)
Increase in other noncurrent assets and others	(6,971)	(763)
Additions to advances to contractors and suppliers	(5,140)	(6,674)
Additions to investments and advances	(1,529)	(1,111)
Additions to investment property	(1,523)	(3,846)
Additions to investments in equity and debt instruments	(479)	(145)
Interest received	1,628	1,454
Dividends received	1,049	544
Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of	307	-
Proceeds from sale of property and equipment	89	936

Net cash flows provided by (used in) financing activities included the following:

<i>(In millions)</i>	June 30	
	2022	2021
Proceeds from short-term loans - net	P50,328	P20,755
Proceeds from (payment of) long-term debt - net	39,871	(21,862)
Payment of cash dividends and distributions	(20,008)	(18,309)
Payment of lease liabilities	(15,976)	(12,990)
Net proceeds from issuance of capital securities of subsidiaries	-	54,550
Redemption of capital securities of a subsidiary	-	(14,582)
Redemption of preferred shares	-	(5,000)

The effect of exchange rate changes on cash and cash equivalents amounted to P8,562 million and P2,880 million in June 2022 and 2021, respectively.

V. KEY PERFORMANCE INDICATORS

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

	June 2022	December 2021
<u>Liquidity:</u>		
Current Ratio	1.23	1.36
Quick Ratio	0.78	0.88
<u>Solvency:</u>		
Debt to Equity Ratio	2.25	2.01
Asset to Equity Ratio	3.25	3.01
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	(0.15%)	4.09%
Interest Rate Coverage Ratio	2.20	2.34
Return on Assets	1.80%	2.43%
	<u>Period Ended June 30</u>	
	2022	2021
<u>Operating Efficiency:</u>		
Volume Growth	22%	2%
Revenue Growth	73%	16%
Operating Margin	12%	15%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

KPI	Formula
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.

VI. OTHER MATTERS

a. Commitments

The outstanding purchase commitments of the Group amounted to P263,135 million and P154,461 million as at June 30, 2022 and December 31, 2021, respectively.

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

- b. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group does not anticipate within the next 12 months any cash flow or liquidity problems. The Group was not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring payments. There were no significant amounts of the Group's trade payables that have not been paid within the stated trade terms.
- c. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
- d. There were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 43 (a) of the 2021 Audited Consolidated Financial Statements, that remain outstanding as at June 30, 2022. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- e. 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, except those discussed in Item II - Financial Performance.
- f. There are no significant elements of income or loss that did not arise from continuing operations.
- g. Except for the Prepared and Packaged Food and Protein segments of the Food division under the Food and Beverage business, which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicalities on the interim operations of the Group's businesses are not material.

- h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.