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S. E. C. Registration Number

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(Company's Full Name)

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M	A	N	D	A	L	U	Y	O	N	G	C	I	T	Y		
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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-2023)

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FORM TYPE

2nd Tuesday of June

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Month 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, 2023**
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 **1550**
Address of issuer's principal office 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 June 30, 2023	
Common Shares	2,383,896,588	
SUB-TOTAL (Common Shares)		2,383,896,588
Series "2-F" Preferred Shares	223,333,500	
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))		843,238,467
TOTAL Outstanding Shares		3,227,135,055
Total Liabilities		P1,733,940 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-I**
- (d) **Series "2" Preferred Shares - 2-J**
- (e) **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, 2023 (with comparative figures as of December 31, 2022 and for the period ended June 30, 2022) and Selected Notes to the Consolidated Financial Statements 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 14, 2023

Signature and Title 
BELLA O. NAVARRA
Comptrollership Manager/
Principal Accounting Officer

Date August 14, 2023

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

ANNEX "A"

ASSETS

LIABILITIES AND EQUITY

	2023		2022			2023		2022
	Unaudited		Audited			Unaudited		Audited
Current Assets				Current Liabilities				
Cash and cash equivalents (Notes 9 and 10)	P 262,198	P	318,214	Loans payable (Notes 5, 9 and 10)		P 234,158	P	267,704
Trade and other receivables - net (Notes 2, 5, 9 and 10)	233,673		238,782	Accounts payable and accrued expenses (Notes 5, 9 and 10)		225,584		227,126
Inventories	166,076		190,193	Lease liabilities - current portion (Notes 5, 9 and 10)		21,615		21,020
Current portion of biological assets - net	3,686		3,418	Income and other taxes payable		46,430		37,694
Prepaid expenses and other current assets (Notes 2, 5, 9 and 10)	134,978		133,691	Dividends payable (Notes 5 and 8)		3,834		4,037
				Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)		129,614		170,032
Total Current Assets	800,611		884,298	Total Current Liabilities		661,235		727,613
Noncurrent Assets				Noncurrent Liabilities				
Investments and advances - net	34,700		32,523	Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)		973,917		918,164
Investments in equity and debt instruments (Notes 5, 9 and 10)	19,103		18,921	Lease liabilities - net of current portion (Notes 9 and 10)		43,454		54,455
Property, plant and equipment - net (Note 6)	728,164		708,192	Deferred tax liabilities		28,757		26,297
Right-of-use assets - net	109,746		112,067	Other noncurrent liabilities (Notes 5, 9 and 10)		26,577		26,144
Investment property - net	74,988		74,660	Total Noncurrent Liabilities		1,072,705		1,025,060
Biological assets - net of current portion	2,912		2,671	Equity				
Goodwill - net (Note 2)	184,474		184,100	Equity Attributable to Equity Holders of the Parent Company				
Other intangible assets - net	279,285		249,321	Capital stock - common		16,443		16,443
Deferred tax assets	20,209		22,554	Capital stock - preferred		10,187		10,187
Other noncurrent assets - net (Notes 5, 9 and 10)	113,210		102,518	Additional paid-in capital		177,719		177,719
				Capital securities		24,211		24,211
Total Noncurrent Assets	1,566,791		1,507,527	Equity reserves		10,572		12,753
				Retained earnings:				
				Appropriated		84,280		71,004
				Unappropriated		111,558		129,239
				Treasury stock		(156,763)		(156,763)
				Total Equity		355,255		284,793
				Non-controlling Interests		355,255		354,359
						633,462		639,152
	P 2,367,402	P	2,391,825			P 2,367,402	P	2,391,825

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

CERTIFIED CORRECT:


BELIA C. NAVARRA
VP, Corporate Finance - Comptrollership

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

	2023 Unaudited		2022 Unaudited		For the Quarter Ended	
					2023 Unaudited	2022 Unaudited
SALES (Note 3)	P 685,229	P 711,416	P 338,504	P 394,651		
COST OF SALES	<u>571,215</u>	<u>606,558</u>	<u>281,033</u>	<u>342,027</u>		
GROSS PROFIT	114,014	104,858	57,471	52,624		
SELLING AND ADMINISTRATIVE EXPENSES	(44,093)	(38,131)	(22,603)	(18,364)		
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(44,847)	(25,633)	(23,044)	(13,268)		
INTEREST INCOME	6,531	2,313	3,078	1,276		
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	1,098	725	446	277		
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	(40)	2	5	-		
OTHER INCOME (CHARGES) - Net (Note 4)	<u>6,220</u>	<u>(13,255)</u>	<u>(3,852)</u>	<u>(11,790)</u>		
INCOME BEFORE INCOME TAX	38,883	30,879	11,501	10,755		
INCOME TAX EXPENSE	<u>15,558</u>	<u>11,074</u>	<u>5,915</u>	<u>4,893</u>		
NET INCOME	<u>P 23,325</u>	<u>P 19,805</u>	<u>P 5,586</u>	<u>P 5,862</u>		
Attributable to:						
Equity holders of the Parent Company	P 757	P (1,341)	P (8,075)	P (7,677)		
Non-controlling interests	<u>22,568</u>	<u>21,146</u>	<u>13,661</u>	<u>13,539</u>		
	<u>P 23,325</u>	<u>P 19,805</u>	<u>P 5,586</u>	<u>P 5,862</u>		
Basic and Diluted Loss Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	<u>P (0.84)</u>	<u>P (1.90)</u>	<u>P (3.97)</u>	<u>P (3.89)</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:


BELA D. NAVARRA
 VP, Corporate Finance - Comptrollership

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

	2023 Unaudited		2022 Unaudited		For the Quarter Ended	
					2023 Unaudited	2022 Unaudited
NET INCOME	P 23,325	P 19,805	P 5,586	P 5,862		
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement loss on net defined benefit retirement plan	(7)	(4)	(1)	-		
Income tax benefit	1	1	-	-		
Net gain (loss) on financial assets at fair value through other comprehensive income	181	(44)	157	(29)		
Income tax benefit (expense)	(18)	9	(11)	7		
Share in other comprehensive income (loss) of associates and joint ventures - net	(9)	7	(9)	-		
	<u>148</u>	<u>(31)</u>	<u>136</u>	<u>(22)</u>		
Items that may be reclassified to profit or loss						
Net gain (loss) on exchange differences on translation of foreign operations	(4,090)	3,242	(2,595)	2,239		
Net gain (loss) on cash flow hedges	(21)	30	5	(335)		
Income tax benefit (expense)	14	(16)	4	183		
Share in other comprehensive income (loss) of associates and joint ventures - net	83	(251)	36	(134)		
	<u>(4,014)</u>	<u>3,005</u>	<u>(2,550)</u>	<u>1,953</u>		
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	(3,866)	2,974	(2,414)	1,931		
TOTAL COMPREHENSIVE INCOME - Net of tax	P 19,459	P 22,779	P 3,172	P 7,793		
Attributable to:						
Equity holders of the Parent Company	P (1,428)	P 212	P (9,677)	P (6,736)		
Non-controlling interests	20,887	22,567	12,849	14,529		
	<u>P 19,459</u>	<u>P 22,779</u>	<u>P 3,172</u>	<u>P 7,793</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 CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company																				Non-controlling Interests	Total Equity												
	Capital Securities						Equity Reserves						Retained Earnings		Treasury Stock		Total																	
	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	Appropriated	Unappropriated	Common	Preferred																				
	Common	Preferred																																
As at January 1, 2023 (Audited)	P	16,443	P	10,187	P	177,719	P	24,211	P	-	P	(9,256)	P	(274)	P	114	P	5,641	P	16,528	P	71,004	P	129,239	P	(67,093)	P	(89,670)	P	284,793	P	354,359	P	639,152
Net loss on exchange differences on translation of foreign operations		-		-		-		-		-		-		-		(2,436)		-		-		-		-		-		-		(2,436)		(1,654)		(4,090)
Share in other comprehensive income (loss) of associates and joint ventures - net		-		-		-		-		(11)		88		(2)		-		-		-		-		-		-		-		75		(1)		74
Net gain (loss) on cash flow hedges, net of tax		-		-		-		-		-		9		-		-		-		-		-		-		-		-		9		(16)		(7)
Net gain (loss) on financial assets at fair value through other comprehensive income		-		-		-		-		-		-		169		-		-		-		-		-		-		-		169		(6)		163
Remeasurement loss on net defined benefit retirement plan		-		-		-		(2)		-		-		-		-		-		-		-		-		-		-		(2)		(4)		(6)
Other comprehensive income (loss)		-		-		-		(13)		9		257		(2,438)		-		-		-		-		-		-		-		(2,185)		(1,681)		(3,866)
Net income		-		-		-		-		-		-		-		-		-		-		757		-		-		-		757		22,568		23,325
Total comprehensive income (loss)		-		-		-		(13)		9		257		(2,438)		-		-		-		757		-		-		-		(1,428)		20,887		19,459
Net addition (reduction) to non-controlling interests and others		-		-		-		-		-		-		-		-		4		-		(738)		-		-		(734)		(2,763)		(3,497)		
Appropriations - net		-		-		-		-		-		-		-		-		-		-		13,276		(13,276)		-		-		-		-		-
Cash dividends and distributions (Note 8):		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		-		-		-		(1,669)		-		-		(1,669)		(7,100)		(8,769)
Preferred		-		-		-		-		-		-		-		-		-		-		-		(1,755)		-		-		(1,755)		(573)		(2,328)
Senior perpetual capital securities		-		-		-		-		-		-		-		-		-		-		-		(1,000)		-		-		(1,000)		(9,555)		(10,555)
As at June 30, 2023 (Unaudited)	P	16,443	P	10,187	P	177,719	P	24,211	P	-	P	(9,269)	P	(265)	P	371	P	3,203	P	16,532	P	84,280	P	111,558	P	(67,093)	P	(89,670)	P	278,207	P	355,255	P	633,462
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
Net 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
Net gain (loss) on financial assets at fair value through other comprehensive income		-		-		-		-		-		(36)		-		-		-		-		-		-		-		-		(36)		1		(35)
Remeasurement loss on net defined benefit retirement plan		-		-		-		(1)		-		-		-		-		-		-		-		-		-		-		(1)		(2)		(3)
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

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

CERTIFIED CORRECT:

ELLIOT B. NAVARRA
VP, Corporate Finance - Comptrollership

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

	2023 Unaudited	2022 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 38,883	P 30,879
Adjustments for:		
Interest expense and other financing charges	44,847	25,633
Depreciation, amortization and others - net (Notes 4 and 6)	20,885	33,399
Interest income	(6,531)	(2,313)
Equity in net earnings of associates and joint ventures	(1,098)	(725)
Loss (gain) on sale of property and equipment	40	(2)
Operating income before working capital changes	97,026	86,871
Changes in noncash current assets, certain current liabilities and others	34,714	(45,304)
Cash generated from operations	131,740	41,567
Income taxes paid	(9,716)	(9,572)
Net cash flows provided by operating activities	122,024	31,995
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to intangible assets	(34,107)	(19,881)
Additions to property, plant and equipment (Note 6)	(29,444)	(33,465)
Increase in other noncurrent assets and others	(9,916)	(6,971)
Additions to advances to contractors and suppliers	(9,463)	(5,140)
Additions to investment property	(2,507)	(1,523)
Additions to investments and advances	(2,306)	(1,529)
Additions to investments in debt instruments	(445)	(479)
Interest received	6,094	1,628
Dividends received	640	1,049
Proceeds from disposal of investments in debt instruments	439	469
Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of (Note 2)	418	307
Proceeds from sale of property and equipment and trademarks	264	89
Net cash flows used in investing activities	(80,333)	(65,446)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	546,060	499,710
Long-term borrowings	129,262	101,875
Payments of:		
Short-term borrowings	(578,751)	(449,382)
Long-term borrowings	(110,673)	(62,004)
Interest and other financing charges paid	(46,412)	(25,392)
Cash dividends and distributions paid to non-controlling shareholders	(17,221)	(15,190)
Payments of lease liabilities	(10,498)	(15,976)
Cash dividends and distributions paid (Note 8)	(4,635)	(4,818)
Redemption of capital securities of a subsidiary	(1,151)	-
Decrease in non-controlling interests' share in the net assets of subsidiaries and others	(2,759)	(1,020)
Net cash flows provided by (used in) financing activities	(96,778)	27,803
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(929)	8,562
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(56,016)	2,914
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	318,214	300,030
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 262,198	P 302,944

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

CERTIFIED CORRECT:


BELANO. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES

TRADE AND OTHER RECEIVABLES

JUNE 30, 2023

(In Millions)

	Total		Past Due			
	Total	Current	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 168,214	P 123,268	P 8,825	P 3,395	P 3,198	P 29,528
Non-trade	68,701	38,542	3,811	387	1,843	24,118
Others	9,559	8,578	55	15	16	895
Total	246,474	P 170,388	P 12,691	P 3,797	P 5,057	P 54,541
Less allowance for impairment losses	12,801					
Net	P 233,673					

San Miguel Corporation**Proceeds from the Offering of the Fixed-Rate Bonds Series "L", Series "M" and Series "N"****June 30, 2023****(Amounts in Millions)****i) Gross and Net Proceeds as Disclosed in the Final Prospectus**

Gross Proceeds		P	60,000
Estimated Fees, Commissions and Expenses Relating to the Issue:			
Underwriting fees	P	190	
Taxes to be paid by the Company		450	
Philippine SEC filing and legal research fee		11	
Estimated legal and other professional fees		8	
Estimated other expenses		11	670
Net Proceeds		P	<u>59,330</u>

ii) Actual Gross and Net Proceeds

Gross Proceeds		P	60,000
Expenses related to the Offering			<u>675</u> *
Net Proceeds		P	<u>59,325</u>

iii) Each Expenditure Item Where the Proceeds were Used

Repayment of Peso-denominated short-term loans used to redeem the Series A Bonds		P	6,484
Repayment of Peso-denominated short-term loans used to redeem the Series D Bonds			10,000
Optional redemption of the Series "2-H" preferred shares			12,300
Final redemption and payment of Series "E" Fixed-Rate Bonds			13,146
Payment of certain US dollar-denominated obligations			17,395
Total Expenditure Where the Proceeds Were Used		P	<u>59,325</u>

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

* Expenses of the Offering include: (i) payment of filing fees with the SEC; (ii) payments made to Philratings for its rating fees and monitoring fees; (iii) underwriting fees; (iv) documentary stamp taxes; (v) PDEX listing application and maintenance fees; (vi) legal and other professional fees and other miscellaneous expenses; and (vii) paying agency and trustee fees.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting Policies

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 3, 2023.

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

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

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

Adoption of Amendments to Standards

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

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.
- Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 include guidance and additional examples on the application of materiality to accounting policy disclosures.

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

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

New and Amendments to Standards Not Yet Adopted

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

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

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16, *Leases*). The amendments confirm the following:
 - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale and leaseback transaction.
 - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right-of-use asset it retains.

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

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

- Classification of Liabilities as Current or Noncurrent - 2020 Amendments and Noncurrent Liabilities with Covenants - 2022 Amendments (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
 - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead require that the right must have substance and exist at the reporting date;
 - clarified that only covenants with which the entity must comply on or before the reporting date affect the classification of a liability as current or noncurrent and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
 - provided additional disclosure requirements for noncurrent liabilities subject to conditions within 12 months after the reporting period to enable the assessment of the risk that the liability could become repayable within 12 months; and
 - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

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

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard applies to all insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.
 - PFRS 17 aims to increase transparency and to reduce diversity in the accounting for insurance contracts. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and simplified approach (the premium allocation approach) mainly for short-duration contracts.

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB).

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

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

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

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

2. Business Combination

Acquisition of Eagle Cement Corporation (ECC)

On December 14, 2022, the Group through San Miguel Equity Investments Inc. completed the acquisition of the 4,997,903,678 common shares representing 99.96% of the total outstanding common shares of ECC. The accounting for the business combination in the 2022 consolidated financial statement was determined provisionally as the Group has to finalize the information with respect to the recognition of the fair value of the identifiable assets acquired and liabilities assumed as at the date of acquisition. These include the assets and liabilities of KB Space Holdings, Inc. (KSHI), classified as held for sale.

On June 16, 2023, ECC completed the sale of 100% outstanding common shares of KSHI for a consideration of P418 and assigned the P1,300 deposit for future subscriptions to the common shares of KSHI to Far East Holdings Inc. (FEHI) (Note 5). As a result, the provisional goodwill recognized on the acquisition was adjusted by P996 from P54,273 to P55,269. The prior year comparative information was not restated since the impact of the adjustment is not material and the Group is still completing the purchase price allocation exercise.

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 (other generators, distribution utilities, including Manila Electric Company, 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.

The cement segment is primarily engaged in the manufacturing, marketing and distribution of cement products.

Inter-segment Transactions

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

Operating Segments

Financial information about reportable segments as at and for the periods ended June 30, 2023, December 31, 2022 and June 30, 2022 follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement		Real Estate and Others		Eliminations		Consolidated	
	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022
Sales																		
External sales	P184,553	P172,027	P12,648	P13,015	P79,007	P99,183	P359,027	P392,235	P16,570	P13,422	P19,806	P6,908	P13,618	P14,626	P -	P -	P685,229	P711,416
Inter-segment sales	34	95	6,082	3,065	5,763	3,398	8,010	6,282	2	3	358	-	17,807	16,600	(38,056)	(29,443)	-	-
Total sales	P184,587	P172,122	P18,730	P16,080	P84,770	P102,581	P367,037	P398,517	P16,572	P13,425	P20,164	P6,908	P31,425	P31,226	(P38,056)	(P29,443)	P685,229	P711,416
Result																		
Segment result	P22,987	P26,567	P1,200	P959	P14,726	P13,601	P16,011	P16,016	P9,028	P6,018	P3,023	P398	P2,707	P2,671	P239	P497	P69,921	P66,727
Interest expense and other financing charges																	(44,847)	(25,633)
Interest income																	6,531	2,313
Equity in net earnings of associates and joint ventures																	1,098	725
Gain (loss) on sale of property and equipment																	(40)	2
Other income (charges) - net																	6,220	(13,255)
Income tax expense																	(15,558)	(11,074)
Net Income																	P23,325	P19,805
	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022
Other Information																		
Segment assets	P283,561	P281,652	P50,318	P54,672	P665,600	P637,243	P429,141	P448,562	P402,781	P355,140	P117,948	P117,530	P327,412	P442,538	(P169,232)	(P204,706)	P2,107,529	P2,132,631
Investments in and advances to associates and joint ventures	-	-	-	-	9,048	7,855	12	11	5,174	5,229	2,225	2,068	18,241	17,360	-	-	34,700	32,523
Goodwill and trademarks and brand names																	184,694	184,320
Other assets																	20,270	19,797
Deferred tax assets																	20,209	22,554
Consolidated Total Assets																	P2,367,402	P2,391,825

Forward

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement		Real Estate and Others		Eliminations		Consolidated	
	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022	June 2023	December 2022
Segment liabilities	P65,867	P69,749	P8,821	P9,802	P70,278	P73,768	P82,748	P72,756	P79,777	P66,382	P8,376	P39,115	P103,943	P106,497	(P172,799)	(P189,869)	P247,011	P248,200
Loans payable																	234,158	267,704
Long-term debt																	1,103,531	1,088,196
Lease liabilities																	65,069	75,475
Income and other taxes payable																	46,430	37,694
Dividends payable and others																	8,984	9,107
Deferred tax liabilities																	28,757	26,297
Consolidated Total Liabilities																	P1,733,940	P1,752,673

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 for the periods ended June 30, 2023 and 2022:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement		Real Estate and Others		Consolidated	
	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022	June 2023	June 2022
Timing of recognition																
Sales recognized at point in time	P184,549	P172,020	P12,264	P12,637	P -	P -	P359,027	P392,235	P -	P -	P19,806	P6,908	P11,656	P12,987	P587,302	P596,787
Sales recognized over time	4	7	384	378	79,007	99,183	-	-	16,570	13,422	-	-	1,962	1,639	97,927	114,629
Total external sales	P184,553	P172,027	P12,648	P13,015	P79,007	P99,183	P359,027	P392,235	P16,570	P13,422	P19,806	P6,908	P13,618	P14,626	P685,229	P711,416

4. Other Income (Charges) - Net

Other income (charges) - net consists of:

		June 30	
	Note	2023	2022
Construction revenue		P22,671	P19,569
Gain (loss) on foreign exchange - net	9	3,798	(16,855)
Miscellaneous gain		2,291	-
Dividend income		15	549
Construction costs		(22,671)	(19,569)
Gain (loss) on derivatives - net	10	(574)	1,861
Others		690	1,190
		P6,220	(P13,255)

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.

Miscellaneous gain represents the income recognized in 2023 by Ginebra San Miguel Inc. from the assignment of product rights amounting to P1,530 and by San Miguel Brewery Inc. from the Tax Credit Certificates issued by the Bureau of Internal Revenue (BIR) in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light amounting to P761.

"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, loss on sale of La Pacita trademarks, 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, 2023 and December 31, 2022:

	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, 2023	P2	P -	P -	P515	On demand;	Unsecured
	December 31, 2022	11	-	-	515	non-interest bearing	
	June 30, 2023	-	-	3,037	-	To be settled on the first anniversary of commercial operations of the Nonoc Project;	Unsecured;
	December 31, 2022	-	-	3,037	-	interest bearing	no impairment
Retirement Plans	June 30, 2023	13	-	3,195	-	On demand;	Unsecured;
	December 31, 2022	23	-	3,480	-	non-interest bearing	no impairment
	June 30, 2023	116	-	4,148	-	On demand;	Unsecured;
	December 31, 2022	246	-	4,127	-	interest bearing	no impairment
Associates	June 30, 2023	1,259	-	1,043	58	On demand;	Unsecured;
	December 31, 2022	1,970	11	888	74	non-interest bearing	no impairment
	June 30, 2023	321	-	4,324	23,478	Less than 1	Unsecured and
	December 31, 2022	6	-	12,346	19,875	to 15 years; interest bearing	secured; no impairment
Joint Ventures	June 30, 2023	39	30	162	38	On demand;	Unsecured;
	December 31, 2022	63	471	117	17	non-interest bearing	no impairment
	June 30, 2023	20	-	621	-	On demand;	Unsecured;
	December 31, 2022	-	-	621	-	interest bearing	with impairment
Shareholder of the Ultimate Parent Company	June 30, 2023	-	-	1,300	-	On demand;	Unsecured;
	December 31, 2022	-	-	-	-	non-interest bearing	no impairment
Shareholders in Subsidiaries	June 30, 2023	13	589	91	1,302	On demand;	Unsecured;
	December 31, 2022	184	890	91	2,658	non-interest bearing	no impairment
Others	June 30, 2023	51	2,668	119	136	On demand;	Unsecured;
	December 31, 2022	6,157	4,284	173	13	non-interest bearing	no impairment
Total	June 30, 2023	P1,870	P3,287	P19,519	P25,527		
Total	December 31, 2022	P8,719	P5,656	P26,015	P23,152		

- 1) Revenue consists of sale of power, fuel and other products and services to related parties.
- 2) Purchases consist of purchase of inventories, power and other products and services from related parties.
- 3) 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, 2023 and December 31, 2022. 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, 2023 and December 31, 2022.

- (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, 2023 and December 31, 2022. 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, 2023 and December 31, 2022.
- b) Amounts owed by related parties include investments in debt securities under investment agreement with Bank of Commerce (BOC) for a total amount of P4,250 and P12,250 as at June 30, 2023 and December 31, 2022, respectively, presented as part of "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts in the consolidated statements of financial position.
- c) 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, 2023 and December 31, 2022.
- d) Amounts owed by related parties include the receivable from the assignment by ECC to FEHI of the advances for future investment in KSHI, included as part of "Trade and other receivables - net" account in the 2023 consolidated statement of financial position (Note 2).
- 4) Amounts owed to related parties consist of trade payables, professional fees and leases. As at June 30, 2023 and December 31, 2022, amounts owed to a related party for the lease of office space presented as part of "Lease liabilities - current portion" amounted to P3 and P6, respectively. The amount owed to the Ultimate Parent Company pertains to dividends payable.
- 5) The amounts owed to associates include interest bearing loans payable to BOC presented as part of "Loans payable" account amounting to P6,987 and P8,172 and "Long-term debt" account amounting to P16,491 and P11,703 in the consolidated statements of financial position as at June 30, 2023 and December 31, 2022, respectively.

The amounts owed to associates include syndicated project finance loans amounting to P15,491 and P10,913 as at June 30, 2023 and December 31, 2022, 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, 2023 and December 31, 2022

	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, 2022 (Audited)	P43,895	P65,036	P154,126	P188,532	P20,092	P200,667	P8,580	P144,461	P825,389
Additions	950	1,036	48,873	2,119	265	3,956	224	66,921	124,344
Acquisition of subsidiaries	11,708	6,603	-	-	-	18,059	4	595	36,969
Disposals/retirement	(38)	(118)	(465)	-	(524)	(2,160)	(8)	(59)	(3,372)
Reclassifications and others	(2,781)	7,837	932	2,971	319	11,531	1,161	(17,954)	4,016
Currency translation adjustments	129	403	-	822	330	1,460	10	58	3,212
December 31, 2022 (Audited)	53,863	80,797	203,466	194,444	20,482	233,513	9,971	194,022	990,558
Additions	224	395	79	142	108	2,542	26	25,928	29,444
Acquisition of a subsidiary	448	-	-	-	-	-	-	-	448
Disposals/retirement	(6)	(78)	(76)	-	(81)	(597)	(1)	-	(839)
Reclassifications and others	1,696	12,562	715	72	167	12,255	964	(21,118)	7,313
Currency translation adjustments	(185)	(460)	-	(1,726)	(692)	(1,304)	(18)	(45)	(4,430)
June 30, 2023 (Unaudited)	56,040	93,216	204,184	192,932	19,984	246,409	10,942	198,787	1,022,494
Accumulated Depreciation									
January 1, 2022 (Audited)	3,948	21,262	24,119	64,516	14,751	112,353	2,348	-	243,297
Depreciation	484	1,897	7,575	5,543	1,108	10,140	431	-	27,178
Disposals/retirement	(13)	(70)	(133)	-	(518)	(1,437)	(2)	-	(2,173)
Reclassifications	(3)	(302)	-	-	-	(2,151)	37	-	(2,419)
Currency translation adjustments	2	207	-	346	209	878	3	-	1,645
December 31, 2022 (Audited)	4,418	22,994	31,561	70,405	15,550	119,783	2,817	-	267,528
Depreciation	299	1,173	4,102	2,681	493	5,984	236	-	14,968
Disposals/retirement	(6)	(77)	(13)	-	(78)	(508)	(1)	-	(683)
Reclassifications	-	(26)	14	-	14	374	(5)	-	371
Currency translation adjustments	1	(204)	-	(750)	(429)	(763)	(4)	-	(2,149)
June 30, 2023 (Unaudited)	4,712	23,860	35,664	72,336	15,550	124,870	3,043	-	280,035

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, 2022 (Audited)	P38	P3,395	P -	P -	P1	P11,023	P26	P -	P14,483
Impairment	-	-	-	-	-	105	-	-	105
Disposals/retirement	-	(4)	-	-	-	(4)	-	-	(8)
Reclassifications	(38)	(1)	-	-	(1)	-	-	-	(40)
Currency translation adjustments	-	27	-	-	-	271	-	-	298
December 31, 2022 (Audited)	-	3,417	-	-	-	11,395	26	-	14,838
Reversal of impairment	-	-	-	-	-	(10)	-	-	(10)
Currency translation adjustments	-	(147)	-	-	-	(385)	(1)	-	(533)
June 30, 2023 (Unaudited)	-	3,270	-	-	-	11,000	25	-	14,295
Carrying Amount									
December 31, 2022 (Audited)	P49,445	P54,386	P171,905	P124,039	P4,932	P102,335	P7,128	P194,022	P708,192
June 30, 2023 (Unaudited)	P51,328	P66,086	P168,520	P120,596	P4,434	P110,539	P7,874	P198,787	P728,164

June 30, 2022

	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, 2022 (Audited)	P43,895	P65,036	P154,126	P188,532	P20,092	P200,667	P8,580	P144,461	P825,389
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									
January 1, 2022 (Audited)	3,948	21,262	24,119	64,516	14,751	112,353	2,348	-	243,297
Depreciation	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)	P38	P3,395	P -	P -	P1	P11,023	P26	P -	P14,483
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									
June 30, 2022 (Unaudited)	P40,015	P40,636	P176,274	P124,495	P5,155	P78,157	P6,514	P173,754	P645,000

Depreciation charged to operations amounted to P14,968 and P12,539 for the periods ended June 30, 2023 and 2022, 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.

As at June 30, 2023 and December 31, 2022, certain property, plant and equipment amounting to P131,059 and P126,261, 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 capital securities, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Basic and diluted EPS is computed as follows:

	June 30	
	2023	2022
Net income (loss) attributable to equity holders of the Parent Company	P757	(P1,341)
Less: Dividends on preferred shares for the period	1,755	2,147
Distributions to capital securities for the period	1,000	1,034
Net loss attributable to common shareholders of the Parent Company (a)	(P1,998)	(P4,522)
Weighted average number of common shares outstanding (in millions) - basic and diluted (b)	2,384	2,384
Basic and diluted loss per common share attributable to equity holders of the Parent Company (a/b)	(P0.84)	(P1.90)

Loss per share is computed based on amounts in nearest Peso.

As at June 30, 2023 and 2022, 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 for common and preferred shares as follows:

2023

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 9, 2023	March 31, 2023	April 28, 2023	P0.35
	June 13, 2023	June 30, 2023	July 26, 2023	0.35
Preferred				
SMC2F	January 26, 2023	March 21, 2023	April 4, 2023	1.27635
	May 11, 2023	June 21, 2023	July 5, 2023	1.27635
SMC2I	January 26, 2023	March 21, 2023	April 4, 2023	1.18790625
	May 11, 2023	June 21, 2023	July 5, 2023	1.18790625
SMC2J	January 26, 2023	March 21, 2023	April 4, 2023	0.890625
	May 11, 2023	June 21, 2023	July 5, 2023	0.890625
SMC2K	January 26, 2023	March 21, 2023	April 4, 2023	0.84375
	May 11, 2023	June 21, 2023	July 5, 2023	0.84375

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
SMC2J	February 10, 2022	March 21, 2022	April 1, 2022	0.890625
	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

On August 3, 2023, the BOD of the Parent Company declared cash dividends to all preferred shareholders of record as at September 21, 2023 on the following shares to be paid on October 5, 2023, as follows:

<u>Class of Shares</u>	<u>Dividend Per Share</u>
SMC2F	P1.27635
SMC2I	1.18790625
SMC2J	0.890625
SMC2K	0.84375

Distributions

The Parent Company paid P1,000 to the holders of Senior Perpetual Capital Securities (SPCS) in 2023, and P934 and P100 to the holders of SPCS and Redeemable Perpetual Securities, respectively, in 2022, as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Parent Company.

On July 28, 2023, the Parent Company paid distributions amounting to P1,007 to the holders of SPCS.

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. (PSE).

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. 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, 2023	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine Peso-denominated Interest rate	P94,347 3.284% - 9.635%	P73,834 3.284% - 9.635%	P78,913 3.284% - 9.635%	P78,777 3.284% - 9.635%	P135,105 3.3832% - 9.635%	P112,495 3.5483% - 9.635%	P573,471
Foreign currency-denominated (expressed in Philippine Peso) Interest rate	1,295 5.5959%	1,356 5.5959%	1,417 5.5959%	1,483 5.5959%	1,548 5.5959%	10,748 5.5959%	17,847
Floating Rate							
Philippine Peso-denominated Interest rate	2,580 Bloomberg Valuation (BVAL) + margin or applicable reference rate, whichever is higher	21,992 BVAL + margin or applicable reference rate, whichever is higher	1,867 BVAL + margin or applicable reference rate, whichever is higher	1,867 BVAL + margin or applicable reference rate, whichever is higher	1,867 BVAL + margin or applicable reference rate, whichever is higher	20,449 BVAL + margin or applicable reference rate, whichever is higher	50,622
Foreign currency-denominated (expressed in Philippine Peso) Interest rate	32,025 (London Interbank Offered Rate (LIBOR)/Secured Overnight Financing Rate (SOFR) applicable reference rate + margin	151,205 SOFR/ applicable reference rate + margin	27,223 SOFR/ applicable reference rate + margin	110,019 SOFR/ applicable reference rate + margin	88,441 SOFR/ applicable reference rate + margin	66,539 SOFR/ applicable reference rate + margin	475,452
	P130,247	P248,387	P109,420	P192,146	P226,961	P210,231	P1,117,392
December 31, 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	P58,936 3.284% - 9.635%	P98,015 3.284% - 9.635%	P71,237 3.284% - 9.635%	P71,549 3.284% - 9.635%	P109,409 3.3832% - 9.635%	P174,118 3.5483% - 9.635%	P583,264
Foreign currency-denominated (expressed in Philippine Peso) Interest rate	7,491 4.7776% - 5.5959%	1,339 5.5959%	1,401 5.5959%	1,464 5.5959%	1,531 5.5959%	11,637 5.5959%	24,863
Floating Rate							
Philippine Peso-denominated Interest rate	2,002 BVAL + margin or applicable reference rate, whichever is higher	1,122 BVAL + margin or applicable reference rate, whichever is higher	16,335 BVAL + margin or applicable reference rate, whichever is higher	536 BVAL + margin or applicable reference rate, whichever is higher	536 BVAL + margin or applicable reference rate, whichever is higher	8,446 BVAL + margin or applicable reference rate, whichever is higher	28,977
Foreign currency-denominated (expressed in Philippine Peso) Interest rate	102,322 LIBOR/SOFR/ applicable reference rate + margin	140,670 LIBOR/SOFR/ applicable reference rate + margin	15,361 LIBOR/SOFR/ applicable reference rate + margin	81,348 LIBOR/SOFR/ applicable reference rate + margin	70,492 LIBOR/SOFR/ applicable reference rate + margin	52,406 LIBOR/SOFR/ applicable reference rate + margin	462,599
	P170,751	P241,146	P104,334	P154,897	P181,968	P246,607	P1,099,703

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 P2,630 and P4,916 for the period ended June 30, 2023 and for the year ended December 31, 2022, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine Peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using 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, 2023		December 31, 2022	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,920	P105,974	US\$3,024	P168,753
Trade and other receivables	1,028	56,721	1,163	64,833
Prepaid expenses and other current assets	23	1,264	99	5,525
Noncurrent receivables	31	1,716	24	1,379
	3,002	165,675	4,310	240,490
Liabilities				
Loans payable	151	8,311	890	49,613
Accounts payable and accrued expenses	2,553	141,089	2,702	150,725
Long-term debt (including current maturities)	8,937	493,299	8,743	487,462
Lease liabilities (including current portion)	522	28,740	616	34,363
Other noncurrent liabilities	110	6,111	118	6,516
	12,273	677,550	13,069	728,679
Net foreign currency-denominated monetary liabilities	US\$9,271	P511,875	US\$8,759	P488,189

The Group reported net gains (losses) on foreign exchange amounting to P3,798 and (P16,855) for the periods ended June 30, 2023 and 2022, 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, 2023	P55.200
December 31, 2022	55.755
June 30, 2022	54.975
December 31, 2021	50.999

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

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, 2023	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P262,198	P262,198	P262,198	P -	P -	P -
Trade and other receivables - net	233,673	233,673	233,673	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	2,946	2,946	1,820	645	481	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	1,387	1,387	1,387	-	-	-
Financial assets at fair value through other comprehensive income (FVOCI) (included under "Investments in equity and debt instruments" account)	7,500	7,721	54	54	904	6,709
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	12,147	16,867	1,361	846	2,638	12,022
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	42,968	44,766	913	13,901	18,990	10,962
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	17,574	17,574	13,493	2,572	-	1,509
Financial Liabilities						
Loans payable	234,158	236,104	236,104	-	-	-
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)	222,421	222,421	222,421	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	1,527	1,527	1,527	-	-	-
Long-term debt (including current maturities)	1,103,531	1,399,791	199,068	302,909	632,204	265,610
Lease liabilities (including current portion)	65,069	83,254	24,921	13,274	25,370	19,689
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities)	11,693	11,693	-	4,599	5,968	1,126

December 31, 2022	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P318,214	P318,214	P318,214	P -	P -	P -
Trade and other receivables - net	238,782	238,782	238,782	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	3,624	3,624	2,486	850	288	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	1,349	1,349	1,349	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	7,319	7,617	54	54	930	6,579
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	12,134	16,917	1,414	846	2,642	12,015
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	39,700	39,825	923	10,435	18,404	10,063
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	19,050	19,050	17,411	358	-	1,281
Financial Liabilities						
Loans payable	267,704	269,289	269,289	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities)	222,851	222,851	222,851	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,832	2,832	2,832	-	-	-
Long-term debt (including current maturities)	1,088,196	1,343,871	231,452	291,910	531,319	289,190
Lease liabilities (including current portion)	75,475	92,498	24,624	21,709	24,585	21,580
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	11,334	11,411	-	2,596	7,659	1,156

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, 2023	December 31, 2022
Cash and cash equivalents (excluding cash on hand)	P260,512	P315,823
Trade and other receivables - net	233,673	238,782
Derivative assets	2,946	3,624
Investment in debt instruments at FVOCI	750	740
Investment in debt instruments at amortized cost	12,147	12,134
Noncurrent receivables and deposits - net	42,968	39,700
Restricted cash	17,574	19,050
	P570,570	P629,853

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

June 30, 2023						
	Financial Assets at Amortized Cost			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)	P260,512	P -	P -	P -	P -	P260,512
Trade and other receivables	-	233,673	12,801	-	-	246,474
Derivative assets	-	-	-	1,395	1,551	2,946
Investment in debt instruments at FVOCI	-	-	-	-	750	750
Investment in debt instruments at amortized cost	12,147	-	-	-	-	12,147
Noncurrent receivables and deposits	-	42,968	561	-	-	43,529
Restricted cash	17,574	-	-	-	-	17,574

December 31, 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)	P315,823	P -	P -	P -	P -	P315,823
Trade and other receivables	-	238,782	12,913	-	-	251,695
Derivative assets	-	-	-	1,592	2,032	3,624
Investment in debt instruments at FVOCI	-	-	-	-	740	740
Investment in debt instruments at amortized cost	12,134	-	-	-	-	12,134
Noncurrent receivables and deposits	-	39,700	582	-	-	40,282
Restricted cash	19,050	-	-	-	-	19,050

The aging of receivables is as follows:

June 30, 2023	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P123,268	P38,542	P8,578	P170,388
Past due:				
1 - 30 days	8,825	3,811	55	12,691
31 - 60 days	3,395	387	15	3,797
61 - 90 days	3,198	1,843	16	5,057
Over 90 days	29,528	24,118	895	54,541
	P168,214	P68,701	P9,559	P246,474

December 31, 2022	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P118,097	P39,480	P8,509	P166,086
Past due:				
1 - 30 days	16,555	776	83	17,414
31 - 60 days	7,207	926	133	8,266
61 - 90 days	6,086	4,015	5	10,106
Over 90 days	24,428	24,475	920	49,823
	P172,373	P69,672	P9,650	P251,695

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

Offsetting Financial Instruments

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

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

	<u>June 30, 2023</u>		<u>December 31, 2022</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P262,198	P262,198	P318,214	P318,214
Trade and other receivables - net	233,673	233,673	238,782	238,782
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	2,946	2,946	3,624	3,624
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	1,387	1,387	1,349	1,349
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	7,500	7,500	7,319	7,319
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	12,147	12,147	12,134	12,134
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	42,968	42,968	39,700	39,700
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	17,574	17,574	19,050	19,050
Financial Liabilities				
Loans payable	234,158	234,158	267,704	267,704
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities)	222,421	222,421	222,851	222,851
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	1,527	1,527	2,832	2,832
Long-term debt (including current maturities)	1,103,531	1,111,146	1,088,196	1,091,731
Lease liabilities (including current portion)	65,069	65,069	75,475	75,475
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	11,693	11,693	11,334	11,334

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, Financial Assets at Amortized Cost, 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 financial assets at amortized cost, 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 6.0% to 6.3% and 3.6% to 7.0% as at June 30, 2023 and December 31, 2022, respectively. The discount rates used for foreign currency-denominated loans range from 3.9% to 6.0% and 3.1% to 5.4% as at June 30, 2023 and December 31, 2022, 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, 2023	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$ -	US\$190	US\$80	US\$270
Average strike rate	-	P48.00 to P53.70	P51.35 to P59.00	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$220	US\$30	US\$ -	US\$250
Average strike rate	P51.26 to P54.31	P50.64	-	
Fixed interest rate	4.90% to 6.09%	3.60% to 4.01%	-	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$ -	US\$ -	US\$225	US\$225
Interest rate	-	-	0.39% to 2.91%	

December 31, 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\$190	US\$40	US\$290
Average strike rate	P52.95 to P56.15	P48.00 to P53.70	P51.35 to P55.40	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$240	US\$40	US\$ -	US\$280
Average strike rate	P47.00 to P56.50	P47.00 to P56.50	-	
Fixed interest rate	4.19% to 5.80%	3.60% to 5.75%	-	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$30	US\$15	US\$225	US\$270
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.50% to 3.00%	

The following are the amounts relating to hedged items:

June 30, 2023	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	(P2)	P -	(P384)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	296	(81)	90
Interest rate risk:			
US dollar-denominated borrowings	67	174	(62)
<hr/>			
December 31, 2022	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	(P552)	P -	(P454)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	(2,059)	89	(51)
Interest rate risk:			
US dollar-denominated borrowings	(339)	250	(90)

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, 2023	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\$270	P781	P -	Other noncurrent assets - net	P2	(P26)	(P2)	P100	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risks: Cross currency swap	250	657	-	Prepaid expenses and other current assets and Other noncurrent assets - net	(296)	209	69	(12)	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	225	150	-	Other noncurrent assets - net	(67)	66	(35)	(29)	Interest expense and other financing charges
December 31, 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
Foreign currency risk: Call spread swaps	US\$290	P887	P -	Prepaid expenses and other current assets, and Other noncurrent assets - net	P552	(P397)	(P553)	P209	Interest expense and other financing charges and Other charges - net
Foreign currency and interest rate risks: Cross currency swap	280	931	-	Prepaid expenses and other current assets, and Other noncurrent assets - net	2,059	(886)	(1,048)	51	Interest expense and other financing charges and Other charges - net
Interest rate risk: Interest rate collar	270	214	-	Prepaid expenses and other current assets, and Other noncurrent assets - net	339	(102)	(5)	(17)	Interest expense and other financing charges

No ineffectiveness was recognized in the 2023 and 2022 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, 2023		December 31, 2022	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	P339	(P595)	(P805)	P272
Changes in fair value:				
Foreign currency risk	2	(26)	552	(397)
Foreign currency risk and interest rate risks	(296)	209	2,236	(886)
Interest rate risk	(67)	66	343	(102)
Amount reclassified to profit or loss	32	59	(1,606)	243
Tax effect	83	(69)	(381)	275
Ending balance	P93	(P356)	P339	(P595)

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\$105 as at June 30, 2023 and US\$365 as at March 31, 2023 and December 31, 2022. Under the agreement, the Group receives floating interest rate based on applicable reference rate and pays fixed interest rate up to 2026. The net positive fair value of the swap amounted to P78, P40 and P45 as at June 30 and March 31, 2023 and December 31, 2022, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,038, US\$1,118 and US\$959 as at June 30 and March 31, 2023 and December 31, 2022, respectively, and with various maturities in 2023 and 2024. The net negative fair value of these currency forwards amounted to P484, P193 and P47 as at June 30 and March 31, 2023 and December 31, 2022, respectively.

Currency Options

The Group has outstanding currency options with an aggregate notional amount of US\$1,366, US\$1,138 and US\$1,665 as at June 30 and March 31, 2023 and December 31, 2022, respectively, and with various maturities in 2023 and 2024. The net negative fair value of these currency options amounted to P44, P540 and P1,801 as at June 30 and March 31, 2023 and December 31, 2022, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its fuel oil and coal requirements, with various maturities in 2023 and 2024. 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 33.0 million barrels, 20.8 million barrels and 31.4 million barrels as at June 30 and March 31, 2023 and December 31, 2022, respectively. The net positive fair value of these swaps amounted to P810, P835 and P506 as at June 30 and March 31, 2023 and December 31, 2022, respectively.

The outstanding notional quantity of coal were 78,000 metric tons as at June 30, 2023 and 117,000 metric tons as at March 31, 2023 and December 31, 2022. The net positive (negative) fair value of these swaps amounted to (P435), (P191) and P178 as at June 30 and March 31, 2023 and December 31, 2022, respectively.

Commodity Options

The Group has outstanding option agreements covering its gas oil requirements with an aggregate notional amount of 100,000 barrels and 250,000 barrels as at June 30 and March 31, 2023, respectively, and with maturities in 2023. The negative fair value of these options amounted P22 and P36 as at June 30 and March 31, 2023, 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\$127, US\$157 and US\$141 as at June 30 and March 31, 2023 and December 31, 2022, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to (P72), P41 and (P121) as at June 30 and March 31, 2023 and December 31, 2022, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P574), P1,861, (P2,177) and (P215) for the periods ended June 30, 2023 and 2022, and March 31, 2023 and 2022, respectively (Note 4).

Fair Value Changes on Derivatives

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

	June 30, 2023	December 31, 2022
Balance at beginning of year	P792	(P463)
Net change in fair value of derivatives:		
Designated as accounting hedge	(112)	1,746
Not designated as accounting hedge	(574)	(23,589)
	106	(22,306)
Less fair value of settled instruments	(1,313)	(23,098)
Balance at end of period	P1,419	P792

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

	June 30, 2023			December 31, 2022		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P2,946	P2,946	P -	P3,624	P3,624
Financial assets at FVPL	-	1,387	1,387	-	1,349	1,349
Financial assets at FVOCI	1,014	6,486	7,500	843	6,476	7,319
Financial Liabilities						
Derivative liabilities	-	1,527	1,527	-	2,832	2,832

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

11. Events After the Reporting Date

Issuance of 14,000,000 Series 4 Preferred Shares and Full Redemption of the US\$500 SPCS by Petron Corporation (Petron)

On July 7, 2023, Petron issued and listed on the PSE 5,000,000 Series 4A, 2,995,000 Series 4B and 6,005,000 Series 4C Preferred Shares (inclusive of the oversubscription of 1,500,000 shares) under the 50,000,000 Series 4 Shelf Registered Preferred Shares at an issue price of P1,000.00 per share or for a total amount of P14,000. The Series 4 Shelf Registered Preferred Shares which were approved for issue by the SEC on June 14, 2023, are cumulative, deferrable, non-voting, non-participating, non-convertible, redeemable, and reissuable Peso-denominated perpetual preferred shares.

The Series 4 preferred shares are redeemable in whole and not in part, starting on the second and a half, third and fifth year or on any dividend payment date thereafter for Series 4A, Series 4B and Series 4C Preferred Shares, respectively. Dividend rates are 6.7079%, 6.7972% and 7.0861% per annum for Series 4A, Series 4B and Series 4C Preferred Shares, respectively.

The net proceeds were used to partly fund the full redemption on July 19, 2023 of the remaining US\$478 SPCS issued in 2018. The payment for the redemption of SPCS was also funded by the US\$225 loan facility executed on March 28, 2023 which was increased from US\$150 to US\$225 on June 8, 2023. The amended facility was fully drawn on July 13, 2023.

12. Other Matters

a. Commitments

The outstanding purchase commitments of the Group amounted to P263,402 and P266,580 as at June 30, 2023 and December 31, 2022, respectively.

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

- b. There were no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- c. There were no material changes in estimates of amounts reported in prior financial years.
- d. The effects of Coronavirus Disease 2019 pandemic and Russia-Ukraine conflict in the performance of the Group 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, 2023 and December 31, 2022 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2023 and 2022 for operating efficiency ratios.

	June 2023	December 2022
<u>Liquidity:</u>		
Current Ratio	1.21	1.22
Quick Ratio	0.75	0.77
<u>Solvency:</u>		
Debt to Equity Ratio	2.74	2.74
Asset to Equity Ratio	3.74	3.74
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	(3.86%)	(4.24%)
Interest Rate Coverage Ratio	1.87	1.66
Return on Assets	1.27%	1.20%
	<u>Period Ended June 30</u>	
	<u>2023</u>	<u>2022</u>
<u>Operating Efficiency:</u>		
Volume Growth	3%	22%
Revenue Growth (Decline)	(4%)	73%
Operating Margin	10%	9%

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	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

Forward

KPI	Formula
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, 2023 (with comparative figures as at December 31, 2022 and for the period ended June 30, 2022). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2023, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. 2023 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

▪ **Energy**

- **Masinloc Power Partners Co. Ltd. (MPPCL)**

On January 17, 2023, MPPCL executed an agreement with local banks to amend its Omnibus Refinancing Agreement (ORA) to avail of a Peso-denominated loan amounting to P8,155 million and pay its outstanding obligation amounting to US\$148 million. The term of the loan is for seven years and is subject to a floating interest rate. MPPCL holds a one-time right to convert the loan into a fixed interest rate borrowing on the second anniversary from the additional ORA loan availment date, pursuant to the terms of the agreement.

- **San Miguel Global Power Holdings Corp. (San Miguel Global Power, formerly SMC Global Power Holdings Corp.)**

On June 15, 2023, San Miguel Global Power availed of a P5,000 million term loan from the P10,000 million loan facility executed on June 9, 2023 for partial refinancing of maturing obligations and for general corporate purposes, including investments in Liquefied Natural Gas (LNG) and Battery Energy Storage Systems (BESS) projects and for payment of transaction costs, fees and expenses in connection with the facility. The loan is subject to fixed interest rate and with a term of five years.

▪ **Infrastructure**

- **SMC NAIAX Corporation (SMC NAIAX)**

On January 10 and March 15, 2023, SMC NAIAX availed of a total of P832 million term loan from its P5,656 million Omnibus Loan and Security Agreement (OLSA) with various banks executed on December 21, 2022. The term of the loan is for seven years

and three months and is subject to a floating interest rate. The proceeds of the loan were used to partially finance the construction and development of the NAIAX Tramo Extension Project.

- **SMC SLEX Holdings Company Inc. (SSHCI)**

On April 19, 2023, SSHCI availed of the remaining P4,200 million of the P20,000 million term loan facility agreement executed on December 3, 2021. The loan is subject to a floating interest rate and with a term of three years. The proceeds were used to partially finance investments, expansion and capital expenditure programs in toll roads and other infrastructure and infrastructure-related projects.

- **SMC Mass Rail Transit 7 Inc. (SMC MRT 7)**

On June 1, 2023, SMC MRT 7 availed of a P9,900 million term loan from the P100,000 million OLSA with various local banks executed on May 18, 2023. The proceeds of the loan are being used to partly finance the Metro Rail Transit Line 7 Project (MRT 7 Project). The loan is subject to a floating interest rate and with a term of 15 years.

▪ **Food and Beverage**

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

On February 21, 2023, SMB availed of the remaining P5,000 million term loan from its P10,000 million loan facility executed on December 19, 2022 to partially finance capital expenditures. The term of the loan is for five years and is subject to a fixed interest rate for the first two years, to be repriced and fixed for the remaining three years.

▪ **Cement**

- **Northern Cement Corporation (NCC)**

On April 13 and June 6, 2023, NCC availed of a total of P900 million term loan from its existing P12,500 million OLSA executed in June 2021. The loan is subject to a fixed interest rate and with final repayment date on June 30, 2031. Proceeds of the loan were used to finance the ongoing cement plant project in Sison, Pangasinan.

▪ **SMC**

On June 29, 2023, SMC availed of a P5,200 million term loan for the refinancing of Corona Virus Disease 2019 response activities during the period 2020 to 2022 and financing and/or refinancing of equity investments in projects supporting access to basic infrastructure. The loan is subject to a fixed interest rate and with a term of six years.

FOREIGN CURRENCY-DENOMINATED LOANS

▪ **San Miguel Global Power**

On March 16, 2023, San Miguel Global Power availed of a US\$100 million term loan from the loan facility agreement with a foreign bank executed on March 10, 2023. The term of the loan is 18 months and is subject to a floating interest rate.

The proceeds of the loan were used for general corporate purposes, including capital expenditures and refinancing of loan, and payment of other transaction related fees, costs and expenses of the facility.

- **SMC**

- a. In March, April and May, 2023, SMC availed of a total of US\$1,200 million from the term loan facility executed on March 21, 2023, which was increased from US\$1,200 million to US\$1,330 million effective June 30, 2023. The term of the loan is for five years and is subject to a floating interest rate. The proceeds of the loan were used for general corporate purposes including the refinancing of external indebtedness, as well as related fees and expenses and payment of other transaction related fees, costs and expenses of the facility.
- b. On various dates from February to June, 2023, SMC availed of a total of US\$270 million term loan from the US\$2,165 million loan facility executed on March 31, 2022. The loan is subject to a floating interest rate and with a term of 13 years. The proceeds were used to fund the land development works of the Manila International Airport (MIA) Project in Bulacan.

- **Petron Corporation (Petron)**

In January, February and May, 2023, Petron availed of a total of US\$143 million from the term loan facility executed in November 2022, which was increased from US\$550 million to US\$669 million effective February 17, 2023. The loans have final maturity of November 8, 2027 and are subject to floating interest rates.

The proceeds of the loan were used to partially prepay the amortizations for the JPY15,000 million long-term loan amounting to US\$30 million, and to prepay the remaining balance of the US\$800 million long-term loan amounting to US\$113 million.

PAYMENT OF FIXED RATE PESO-DENOMINATED BONDS BY SMC

On March 20, 2023, SMC paid its Series E Fixed Rate Peso-denominated Bonds amounting to P13,146 million, which matured on the same date. The Series E Bonds, which formed part of the P20,000 million Series E, Series F and Series G Fixed Rate Bonds were issued by SMC in 2018.

The Series E Bonds were paid from the proceeds of the P60,000 million Series L, Series M and Series N Fixed Rate Peso-denominated Bonds issued on December 14, 2022.

PAYMENT OF TERM LOANS

FOREIGN CURRENCY-DENOMINATED TERM LOANS

- **San Miguel Global Power**

On March 13, 2023, San Miguel Global Power paid the remaining balance of the US\$700 million term loan facility availed on March 16, 2018 amounting to US\$500 million, which matured on the same day.

The payment was funded by the proceeds from issuance of Redeemable Perpetual Securities (RPS) by San Miguel Global Power to SMC amounting to US\$500 million on March 10, 2023 and cash generated from operations.

▪ **SMC**

- a. On February 23, 2023, SMC prepaid in full the US\$400 million term loan availed on March 16, 2018. The US\$400 million was paid from the available cash balance.
- b. On April 28, 2023, SMC paid in full the US\$300 million loan availed in 2018, funded by the proceeds from the issuance of P60,000 million Series L, Series M and Series N Fixed Rate Peso-denominated Bonds issued on December 14, 2022.

PESO TERM LOAN

▪ **EAGLE CEMENT CORPORATION (ECC)**

On May 29, 2023, ECC prepaid in full the P3,738 million balance of its Term Loan Facility and Security Agreement entered in 2016. The payment was funded by the proceeds from the redemption on May 25, 2023 of the P4,000 million SMC RPS issued in 2020.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the first semester of 2023, the Group paid a total of P11,728 million of its scheduled amortizations and maturing obligations.

The Infrastructure, Energy, Petron, Packaging, Cement, Food and Beverage businesses and SMC paid a total of P4,443 million, P3,187 million, P1,935 million, P1,462 million, P361 million, P260 million and P80 million, respectively, of their maturing obligations.

PARTIAL REDEMPTION OF US\$500 MILLION SENIOR PERPETUAL CAPITAL SECURITIES (SPCS) BY PETRON

On January 4, 2023, Petron conducted a tender offer of up to US\$50 million to the holders of its outstanding US\$500 million SPCS issued and listed with the Singapore Exchange Securities Trading Limited in January 2018. On January 12, 2023, the expiration deadline of the tender offer, a total of US\$22 million in principal amount of SPCS were accepted by Petron. Security holders that validly tendered their securities at or prior to the expiration deadline and which Petron accepted for purchase from such security holder were paid the applicable purchase price of US\$927.00 per US\$1,000.00 on January 19, 2023.

The difference between the price paid and the net carrying amount of the SPCS redeemed was recognized as part of "Equity reserves" account in the 2023 consolidated statement of financial position.

EVENTS AFTER THE REPORTING DATE

Issuance of 14,000,000 Series 4 Preferred Shares and Full Redemption of the US\$500 Million SPCS by Petron

On July 7, 2023, Petron issued and listed on the Philippine Stock Exchange 5,000,000 Series 4A, 2,995,000 Series 4B and 6,005,000 Series 4C Preferred Shares (inclusive of the oversubscription of 1,500,000 shares) under the 50,000,000 Series 4 Shelf Registered Preferred Shares at an issue price of P1,000.00 per share or for a total amount of P14,000 million. The Series 4 Shelf Registered Preferred Shares, which were approved for issue by the Securities and Exchange Commission on June 14, 2023, are cumulative, deferrable, non-

voting, non-participating, non-convertible, redeemable, and reissuable Peso-denominated perpetual preferred shares.

The Series 4 Preferred Shares are redeemable in whole and not in part, starting on the second and a half, third and fifth year or on any dividend payment date thereafter for Series 4A, Series 4B and Series 4C Preferred Shares, respectively. Dividend rates are 6.7079%, 6.7972% and 7.0861% per annum for Series 4A, Series 4B and Series 4C Preferred Shares, respectively.

The net proceeds were used to partly fund the full redemption on July 19, 2023 of the remaining US\$478 million SPCS issued in 2018. The payment for the redemption of SPCS was also funded by the US\$225 million loan facility executed on March 28, 2023 which was increased from US\$150 million to US\$225 million on June 8, 2023. The amended facility was fully drawn on July 13, 2023.

II. FINANCIAL PERFORMANCE

2023 vs. 2022

	June		Horizontal Analysis		Vertical Analysis	
	2023	2022	Increase (Decrease) Amount	%	2023	2022
	<i>(In Millions)</i>					
Sales	P685,229	P711,416	(P26,187)	(4%)	100%	100%
Cost of Sales	571,215	606,558	(35,343)	(6%)	83%	85%
Gross Profit	114,014	104,858	9,156	9%	17%	15%
Selling and Administrative Expenses	(44,093)	(38,131)	5,962	16%	(7%)	(5%)
Operating Income	69,921	66,727	3,194	5%	10%	10%
Interest Expense and Other Financing Charges	(44,847)	(25,633)	19,214	75%	(6%)	(4%)
Interest Income	6,531	2,313	4,218	182%	1%	0%
Equity in Net Earnings of Associates and Joint Ventures	1,098	725	373	51%	0%	0%
Gain (Loss) on Sale of Property and Equipment	(40)	2	(42)	(2100%)	(0%)	0%
Other Income (Charges) - Net	6,220	(13,255)	19,475	147%	1%	(2%)
Income Before Income Tax	38,883	30,879	8,004	26%	6%	4%
Income Tax Expense	15,558	11,074	4,484	40%	3%	1%
Net Income	P23,325	P19,805	P3,520	18%	3%	3%
Attributable to:						
Equity Holders of the Parent Company	P757	(P1,341)	P2,098	156%	0%	(0%)
Non-controlling Interests	22,568	21,146	1,422	7%	3%	3%
Net Income	P23,325	P19,805	P3,520	18%	3%	3%

The Group's consolidated sales ended 4% lower at P685,229 million from the same period in 2022 mainly on account of lower revenues from Petron due to declining crude oil prices and

lower volumes from San Miguel Global Power, offsetting the higher revenues from the other businesses and the contribution from ECC which was consolidated in December 14, 2022.

The Group's cost of sales decreased by 6% mainly due to: (a) lower cost per liter of petroleum products partly offset by the higher volumes of Petron; and (b) lower overall power purchases of the Energy business relative to the decline in sales volume. The decrease was partly offset by the: (a) higher cost of sales relative to increase in volume of SMB and the higher cost of major raw materials consumed in the production partly offset by the lower volumes of the Food division of the Food and Beverage business; and (b) the cost of sales of ECC for the first semester.

The increase in selling and administrative expenses of 16% is attributable mainly to higher salaries and employee benefits of the Group, distribution costs and contracted services primarily from the Food and Beverage business and Petron, and the operating expenses of ECC.

Consolidated operating income for the first half of the year sustained its growth which reached P69,921 million, up by 5% from the comparative period last year. Sustained performance improvements of SMB and Ginebra San Miguel Inc. (GSMI), the Infrastructure and Packaging businesses and the addition of ECC, mitigated the impact of rising raw material costs which continue to affect some of the businesses.

The increase in interest expense and other financing charges was mainly due to higher interest rates and average loan balance primarily of SMC and Petron.

The increase in interest income was mainly due to higher interest rates and average balance of short-term placements of SMC, the Infrastructure and Food and beverage businesses, as well as the higher balance of investment in debt securities of SMB, GSMI and Petrogen Insurance Corporation.

The increase in equity in net earnings of associates and joint ventures was mainly due to the share on the higher net income of Bank of Commerce (BOC) in the first semester of 2023 compared to the same period last year.

The loss on sale of property and equipment in 2023 was mainly due to the retirement of certain equipment by Malita Power Inc. (formerly San Miguel Consolidated Power Corporation).

Other income - net in 2023 mainly represents the: (a) net gain on foreign exchange from the revaluation of foreign currency-denominated long-term debt and cash and cash equivalents partly offset by the realized loss from settlements of foreign currency-denominated long-term debt; and (b) income recognized by GSMI from the assignment of product rights. Other charges - net in 2022 mainly represents the loss on foreign exchange from the revaluation of foreign currency-denominated long-term debt partly offset by the gain on revaluation of foreign currency-denominated cash and cash equivalents and receivables.

The higher income tax expense of the Group was primarily due to SMC's turn-around from income tax benefit in 2022 to income tax expense in 2023, as a result of the unrealized gain on the revaluation of foreign currency-denominated long-term debt compared to a loss in the same period last year.

Consolidated net income rose 18% to P23,325 million, from P19,805 million in the previous year on account of operating income growth and the gain on foreign exchange as compared to the loss on foreign exchange recognized in the same period last year.

The increase in the share of non-controlling interests (NCI) was mainly due to the higher net income of SMB.

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

1) FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc. (SMFB) posted consolidated sales of P184,587 million during the first six months of the year, 7% higher than the same period last year, primarily brought about by higher selling prices across its Beer and NAB, Spirits and Food divisions combined with continuous volume growth from the Beer and NAB and Spirits divisions.

Consolidated operating income however, ended lower by 13% at P22,987 million mainly due to the impact of rising cost of raw materials that continues to affect the Food division.

With SMB and GSML's sustained performance, SMFB's consolidated net income ended at par with last year at P18,809 million.

a) Beer and NAB Division

SMB continued its strong performance with consolidated sales and volumes reaching P74,119 million and 121.4 million cases for the first semester of the year, up by 14% and 10% than the same period last year, respectively.

SMB's operating income grew by 12% from the previous year to P16,429 million attributable to higher volume and selling prices in both domestic and international operations despite the effect of excise tax increase effective January 1, 2023. Consolidated net income ended at P13,469 million, up 26% from P10,656 million in 2022.

Domestic Operations

SMB's domestic operations delivered 9% growth in beer volumes for the first half of 2023 compared to the same period last year. SMB's domestic sales reached P66,035 million, up 13% from the previous year. Operating income and net income amounted to P14,545 million and P11,710 million, higher by 7% and 20%, respectively.

The continued volume growth was driven by the relevant brand campaigns, visibility drive, seasonal and geo-targeted digital initiatives as well as intensified offtake generation and defense programs, coupled with the favorable external business environment. SMB's brand affinity was further strengthened by the new brand campaigns and volume-generating programs namely: San Miguel Pale Pilsen's new "Wanted" thematic campaign with "Batang San Miguel" tagline and "Pacquiao Blow-by-Blow" television sponsorships; Red Horse' "Levitating" Core and "Magneto" Entry Point Drinkers advertisements; and San Mig Light's ongoing "Yass" thematic campaign, the new "Speakeasy" podcast episode and "2023 SML Limited Edition Can". To further boost its strength, SMB continues to focus on expanding its distribution, marketing and promotional activities and improve its cost-competitiveness and operational efficiencies.

International Operations

SMB's international operations also continued to perform well, delivering 16% higher volumes at 14.3 million cases as a result of robust and growing consumption in Thailand, South China and Exports markets. Correspondingly, operating income grew by 66% as higher volumes was supported by better margin and lower costs.

b) Spirits Division

GSML continues to deliver solid performance in the first semester of the year. Sales grew 10% to P25,406 million brought mainly by the gains from higher selling prices and

the quick rebound in volumes, recovering the 5% decline in the first quarter. Combined with the support of relevant thematic campaigns, nationwide consumer promo which recorded the highest number of redemptions, and resumption of on-ground activations, consolidated volumes, reached 22.2 million cases, up 1% from last year.

Operating income amounted to P3,376 million, 3% higher than last year's level while net income reached P4,077 million, 64% higher than the previous year, which include the one-time income from the assignment of product rights recognized in 2023.

c) Food Division

The Food division's consolidated sales for the first half of the year amounted to P85,065 million, slightly ahead of last year, mainly driven by higher selling prices implemented since the second half of last year. Volumes were however down due to the effect of high inflation which dampened consumer purchasing power, resurgence of the African Swine Fever (ASF) and poultry capacity supply constraints.

The sustained rise of raw material prices throughout the first half of the year outpaced growth of revenue, squeezing income from operations, ending lower by 63% to P3,216 million.

Consequently, net income amounted to P1,691 million.

The expected easing of raw material prices, coupled with a stronger peso, as well as the stabilization of poultry capacity, will improve prospects for the second half of the year.

Revenues from the Animal Nutrition and Health segment grew by 9% mainly on account of higher selling prices. Volumes remained adversely affected by the sluggish performance of the poultry and hog sectors due to the continuing challenge of Avian Flu and ASF. While cases of Avian Flu have been subsiding, the ASF is reported to be spreading in the Visayas and has resurged in some areas of Luzon and Mindanao, discouraging hog farmers from repopulating their farms.

The Protein segment, consisting of Poultry and Meats businesses, posted a 9% decline in revenues. While poultry capacity has improved, a surge in frozen chicken imports caused chicken prices to fall during the second quarter, offsetting volume gains. Fresh Meats revenues were expectedly lower on account of the deliberate decision to downsize hog operations at a minimum to manage the impact of ASF.

The Prepared and Packaged Food segment delivered consolidated revenues 8% higher than last year brought by higher selling prices. Despite the difficult market environment, growth was noted in a number of canned meat, bread spread and coffee categories, which sustained double-digit growth in volumes.

The Flour segment sustained its strong growth momentum recording a 14% growth in revenue from last year on the back of better volumes and favorable selling prices combined with the easing cost of wheat.

2) PACKAGING

The Packaging business' recorded consolidated revenues of P18,730 million for the first six months of the year, 16% higher than the same period last year, brought about by the higher sales delivered from the glass, plastics and beverage filling businesses together with the stable growth from Australia operations.

Operating income amounted to P1,200 million, 25% higher than last year.

3) ENERGY

San Miguel Global Power's offtake volumes for the first semester ended at 10,685 gigawatt hours (Gwh), 25% lower than last year, mainly due to lower bilateral sales volumes of the Ilijan Power Plant following the Temporary Restraining Order issued on December 7, 2022 on its obligation to supply the 670MW contract capacity to Manila Electric Company (Meralco) and which was eventually allowed to be terminated by the Court of Appeals. The decline was countered by the Emergency Power Supply Agreement with Meralco which took effect on March 26, 2023.

Consolidated sales ended at P84,770 million, down 17% from last year's P102,581 million. Higher average realization prices partly mitigated the lower offtake volumes brought by the increase in pass-on fuel rates coupled with higher average spot prices.

With better margins on its available net capacity, operating income increased by 8% from last year, reaching P14,751 million.

Consequently, net income grew 414% to P5,909 million, resulting from better margins and foreign exchange gains recognized from the revaluation of foreign currency-denominated net liabilities compared to the net foreign exchange loss recognized last year.

The BESS project has successfully secured ancillary services contracts with the National Grid Corporation of the Philippines that will render power quality solutions for the grid. The remaining pipeline of battery projects are gearing up to meet incoming requirements for the grid's ancillary services and provide instant peak supply to help ensure energy security in the coming years.

4) FUEL AND OIL

Petron reinforced its strong volumes for the first half of the year, redelivering consolidated sales volumes of 57.6 million barrels, 12% higher than last year's 51.4 million barrels, mainly brought about by the country's strong demand recovery. In particular, volumes from Philippine operations jumped 16% to 34.9 million barrels. Combined Philippines and Malaysia volumes from commercial and retail businesses recorded a 13% and 8% year-on-year increase, respectively.

Despite the strong increase in sales volume, Petron continues to be affected by the volatile global oil prices. The price correction in the oil market which began in the second semester of last year following the record high price surge in the second quarter of 2022 brought upon by the Russia-Ukraine war, resulted to lower average selling prices of Petron's petroleum products. Benchmark Dubai crude oil hovered around the US\$80 per barrel mark during the period, declining by 22% from the same period of last year. As a result, consolidated revenues declined by 8% to P367,037 million from last year's P398,517 million.

Despite the softening of refining margins, Petron sustained its consolidated operating income at P16,011 million for the first semester this year, at par with last year, lifted by the encouraging volume growth and continued operational and marketing efforts.

Net income settled at P6,142 million, down 20% from last year's P7,706 million, the effect of rising financing costs brought by the successive hikes in interest rates.

5) INFRASTRUCTURE

The Infrastructure business delivered consolidated revenues of P16,572 million, 23% higher than last year, sustaining its growth momentum from the operating tollroads. Combined average daily traffic volumes recorded for the first semester of the year reached more than 998,000 vehicles, up 13% from the previous year.

Operating income grew 50% to P9,028 million, as a result of sustained growth in volumes backed by continued cost management initiatives.

The railway component of Metro Rail Transit Line 7 (MRT 7) is about 65% completed, while the Detailed Engineering Design (DED) and site development are still ongoing. The South Luzon Expressway - Toll Road 4 (SLEX-TR4) and Skyway Stage 4 projects are all on track. The awarding of the Independent Consultant contract is in progress for the Pasig River Expressway, Southern Access Link Expressway and South Luzon Expressway - Toll Road 5 projects. The Toll Regulatory Board has approved the Independent Consultant for the Northern Access Link Expressway. As at June 2023, the overall completion of the Land Development Works for the MIA Project was about 69%, with site clearance at almost 99% complete.

6) CEMENT

The Cement business composed of ECC, NCC and Southern Concrete Industries, Inc. (SCII) registered consolidated sales of P20,164 million, tripling from last year's P6,908 million, representing mainly the sales contribution of ECC. Operating income amounted to P3,023 million from P398 million in 2022.

In June 2023, NCC started the commercial operations of its third integrated line with a capacity of 50 million bags per annum.

SCII has declared its full commercial operations on May 31, 2023, establishing its presence in Mindanao.

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	606,558	315,267	291,291	92%	85%	77%
Gross Profit	104,858	94,857	10,001	11%	15%	23%
Selling and Administrative Expenses	(38,131)	(36,513)	1,618	4%	(5%)	(9%)
Operating Income	66,727	58,344	8,383	14%	10%	14%
Interest Expense and Other Financing Charges	(25,633)	(23,539)	2,094	9%	(4%)	(6%)
Interest Income	2,313	1,674	639	38%	0%	1%
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 Income (Charges) - Net	(13,255)	764	(14,019)	(1835%)	(2%)	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%
Attributable to:						
Equity Holders of the Parent Company	(P1,341)	P13,070	(P14,411)	(110%)	(0%)	3%
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 in 2021, backed by continuous volume growth and better selling prices across all businesses.

The Group's cost of sales increased by 92% mainly due to: (a) higher cost per liter of petroleum 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 NAB Divisions of the Food and Beverage business.

Consolidated operating income rose by 14% to P66,727 million compared to 2021 due significantly to the improved performance of Petron together with the sustained performance during the second quarter of 2022 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 balance of long-term debt and lease liabilities of entities under the Independent Power Producer Administration (IPPA) Agreements.

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 BOC 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 recognized by San Miguel China Investment Co. Ltd. in 2021.

Other charges - net in 2022 mainly represents the net loss on foreign exchange from the revaluation of foreign currency-denominated long-term debt partly offset by the gain on the revaluation of foreign currency-denominated cash and cash equivalents and receivables as a result of the depreciation of the Philippine Peso against the US Dollar in June 2022. Other income - net in 2021 mainly represents the gain on currency hedging of SMC and 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) Act 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% from 2021, mainly due to higher foreign exchange losses. Excluding the effect of foreign exchange movement in 2022 and the impact of CREATE Act for 2020 reflected in 2021, consolidated net income would have been P32,489 million, 24% higher than the comparable amount in 2021.

The share of NCI on the Group's net income increased in the first semester of 2022 compared to the same period in 2021 mainly due to the higher net income of Petron and the Food and Beverage business and higher amount of distribution on San Miguel Global Power's SPCS.

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

1) FOOD AND BEVERAGE

SMFB for the first half of 2022 posted consolidated sales of P172,122 million, a 17% increase over the same period in 2021, 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 volumes for the first half of 2022 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 in 2021.

Operating income and net income ended at P14,726 million and P10,656 million, higher by 22% and 12% from the same period of 2021, respectively.

Domestic Operations

Domestic operation's volumes for the first six months of 2022 ended at 95.9 million cases, up 10% on the back of more relaxed restrictions and expanded mobility beginning end of March 2022, paving the way to the reopening of on-premise and penetration outlets. The second quarter of 2022 saw a big recovery, posting 28% growth versus the 6% decline in the first quarter of 2022.

Sales and operating income amounted to P58,409 million and P13,652 million, 18% and 19% higher than 2021, 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 2022, 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

GSMI sustained its consistent growth during the first half of 2022. Consolidated sales reached P23,148 million, 14% higher than the same period in 2021. This was achieved by higher volumes which ended at 22 million cases, 9% better than 2021 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 the 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 comparative period in 2021 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 2021 performance by 3%. This was brought about by a 16% improvement during the second quarter of 2022 compared to the 8% decline in the first quarter.

Net income stood at P6,052 million, down 2% compared to 2021 level, largely affected by the impact of peso depreciation, as well as interest expenses related to expansion projects.

The Animal Nutrition and Health segment posted revenues of P21,045 million, 31% higher than the first half of 2021, 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 2021. Poultry's sales grew 7% from same period in 2021, 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 2022, 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 ASF.

Prepared and Packaged Food segment's consolidated sales grew by 13% to P21,369 million from the 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 of 2022.

The Flour segment sustained its strong revenue delivery posting a 48% growth at P8,171 million versus the same period in 2021. 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 2022 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 in 2021.

3) ENERGY

San Miguel Global Power's offtake volumes for the first half of 2022 reached 14,336 Gwh, a 6% growth versus the same period in 2021 mainly driven by improvements in 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 2021 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 due to exposure to high spot prices, particularly in January 2022 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, San Miguel Global Power also has absorbed the significant increase in coal prices. Consequently, operating income declined by 34% to P13,664 million from P20,575 million in 2021.

With lower margin and recognition of foreign exchange losses, San Miguel Global Power incurred a net loss of P1,880 million, behind by 115% from 2021.

4) FUEL AND OIL

Petron continues its strong performance in the first half of 2022 posting higher sales amounting to P398,517 million, surpassing 2021 first half sales of 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 in 2021.

From January to June 2022, 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 of 2022 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 P3,873 million in 2021. This has already surpassed full year 2021 profit.

5) INFRASTRUCTURE

The Infrastructure business' traffic volumes grew 37% in the first half of 2022, as travel and mobility are almost at pre-pandemic level and outdoor activities increased since the end of March 2022. With this, consolidated revenues ended at P13,425 million, 58% higher than 2021 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.

III. FINANCIAL POSITION

2023 vs. 2022

<i>(Amounts in millions)</i>			Horizontal Analysis		Vertical Analysis	
	June 2023	December 2022	Increase (Decrease) Amount	%	2023	2022
Cash and cash equivalents	P262,198	P318,214	(P56,016)	(18%)	11%	13%
Trade and other receivables - net	233,673	238,782	(5,109)	(2%)	10%	10%
Inventories	166,076	190,193	(24,117)	(13%)	7%	8%
Current portion of biological assets - net	3,686	3,418	268	8%	0%	0%
Prepaid expenses and other current assets	134,978	133,691	1,287	1%	6%	6%
Total Current Assets	800,611	884,298	(83,687)	(9%)	34%	37%
Investments and advances - net	34,700	32,523	2,177	7%	1%	1%
Investments in equity and debt instruments	19,103	18,921	182	1%	1%	1%
Property, plant and equipment - net	728,164	708,192	19,972	3%	31%	30%
Right-of-use assets - net	109,746	112,067	(2,321)	(2%)	4%	5%
Investment property - net	74,988	74,660	328	0%	3%	3%
Biological assets - net of current portion	2,912	2,671	241	9%	0%	0%
Goodwill - net	184,474	184,100	374	0%	8%	8%
Other intangible assets - net	279,285	249,321	29,964	12%	12%	10%
Deferred tax assets	20,209	22,554	(2,345)	(10%)	1%	1%
Other noncurrent assets - net	113,210	102,518	10,692	10%	5%	4%
Total Noncurrent Assets	1,566,791	1,507,527	59,264	4%	66%	63%
Total Assets	P2,367,402	P2,391,825	(P24,423)	(1%)	100%	100%
Loans payable	P234,158	P267,704	(P33,546)	(13%)	10%	11%
Accounts payable and accrued expenses	225,584	227,126	(1,542)	(1%)	10%	9%
Lease liabilities - current portion	21,615	21,020	595	3%	1%	1%
Income and other taxes payable	46,430	37,694	8,736	23%	2%	2%
Dividends payable	3,834	4,037	(203)	(5%)	0%	0%
Current maturities of long- term debt - net of debt issue costs	129,614	170,032	(40,418)	(24%)	5%	7%
Total Current Liabilities	661,235	727,613	(66,378)	(9%)	28%	30%
Long-term debt - net of current maturities and debt issue costs	973,917	918,164	55,753	6%	41%	39%
Lease liabilities - net of current portion	43,454	54,455	(11,001)	(20%)	2%	2%
Deferred tax liabilities	28,757	26,297	2,460	9%	1%	1%
Other noncurrent liabilities	26,577	26,144	433	2%	1%	1%
Total Noncurrent Liabilities	1,072,705	1,025,060	47,645	5%	45%	43%

Forward

<i>(Amounts in millions)</i>			Horizontal Analysis		Vertical Analysis	
	June 2023	December 2022	Increase (Decrease) Amount	%	2023	2022
Capital stock - common	P16,443	P16,443	P -	0%	1%	1%
Capital stock - preferred	10,187	10,187	-	0%	0%	0%
Additional paid-in capital	177,719	177,719	-	0%	8%	7%
Capital securities	24,211	24,211	-	0%	1%	1%
Equity reserves	10,572	12,753	(2,181)	(17%)	0%	1%
Retained earnings:						
Appropriated	84,280	71,004	13,276	19%	4%	3%
Unappropriated	111,558	129,239	(17,681)	(14%)	5%	6%
Treasury stock	(156,763)	(156,763)	-	0%	(7%)	(7%)
Equity Attributable to						
Equity Holders of						
the Parent Company	278,207	284,793	(6,586)	(2%)	12%	12%
Non-controlling Interests	355,255	354,359	896	0%	15%	15%
Total Equity	633,462	639,152	(5,690)	(1%)	27%	27%
Total Liabilities and Equity	P2,367,402	P2,391,825	(P24,423)	(1%)	100%	100%

Consolidated total assets as at June 30, 2023 ended at about P2,367,402 million, P24,423 million lower than December 31, 2022. The decrease was primarily due to decrease in cash and cash equivalents and inventories, partly offset by the increase in other intangible assets and property, plant and equipment.

The decrease in cash and cash equivalents by P56,016 million was mainly due to the net payment of short-term loans, capital expenditures for the ongoing projects of the Infrastructure, Energy, Food and Beverage and Cement businesses and payment of interests, dividends and distributions and lease liabilities. This was partly offset by cash generated from operations and net proceeds from availment of long-term debt.

The decrease in inventories by P24,117 million was attributable mainly to the cost of major raw materials consumed during the period by the Food Division under the Food and Beverage business from bulk purchases at end of 2022 and lower prices of both crude oil and finished products of Petron.

The increase in total biological assets by P509 million was due to higher growing costs due to higher feeds and chick, broiler and hog costs.

The increase in investments and advances - net by P2,177 million was mainly due to the: (a) advances by the Energy and Cement businesses for future investments to certain companies; and (b) the Group's share in the net earnings of BOC and MNHPI in the first semester of 2023. The increase was partly offset by the dividend received from MNHPI.

The increase in other intangible assets by P29,964 million was mainly due to additions to concession rights for the MIA Project, reclamation of Navotas Coastal Bay and the costs of various ongoing projects of the Infrastructure business, partly offset by the total amortization for the period.

The decrease in deferred tax assets by P2,345 million was primarily due to the deferred income tax expense recognized by SMC on unrealized gain from the revaluation of the foreign currency-denominated long-term debt.

The increase in other noncurrent assets - net by P10,692 million was mainly due to additional advances paid to contractors and suppliers for ongoing projects and increase in restricted cash fund balance for the payment of long-term debt of the Energy business.

The decrease in loans payable by P33,546 million was mainly due to the net payment made by Petron, SMC, Food division of the Food and Beverage business and the Energy business. The decrease was partly offset by the availment of loan by San Miguel Equity Investments Inc. for payment of bridge financing for the acquisition of ECC.

The increase in income and other taxes payable by P8,736 million was mainly due to the: (a) higher Value-Added Tax (VAT) payable of the Food and Beverage and Energy businesses as a result of the implementation of quarterly VAT remittance compared to monthly remittance in 2022; (b) higher income tax payable from the improved performance of the Beer and NAB and Spirits divisions of the Food and Beverage business; and (c) higher excise tax liability of Petron Philippines.

The decrease in dividends payable by P203 million was mainly due to payment of cash dividends by Petron in March and June 2023 to preferred stockholders which were declared in 2022 and by SMC in January 2023 to Subseries "2-H" preferred stockholders which was declared in November 2022. The decrease was partly offset by the dividends payable recognized in relation to the declaration of cash dividends by The Purefoods-Hormel Company, Inc. to its non-controlling shareholder in March 2023.

The increase in total long-term debt, net of debt issue costs by P15,335 million was primarily due to the availment of foreign and Peso term loans by the Group, partly offset by the: (a) payments of foreign term loans by San Miguel Global Power and SMC, Series E bonds by SMC, and other maturing obligations by the Group; and (b) translation adjustments for the period.

The increase in deferred tax liabilities by P2,460 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 decrease in total lease liabilities by P10,406 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 P2,181 million was mainly due to the loss on exchange differences on the translation of foreign operations for the period with the appreciation of the Philippine Peso against the US Dollar.

The increase in appropriated retained earnings by P13,276 million was due to the appropriations by: (a) San Miguel Foods Inc. for the Feeds Expansion Projects; (b) SMB for the payment of Series H Bonds which will mature on April 2, 2024 and the P10,000 million term loans that will mature on December 20, 2027; and (c) SMC SLEX Inc. for capital expenditures during the period, net of reversals for projects that were already completed. The increase was partly offset by the reversal of appropriations for power plant project of Petron.

The decrease in unappropriated retained earnings by P17,681 million was mainly due to the net appropriations and cash dividends declared and distributions paid for the period.

2022 vs. 2021

			Horizontal Analysis		Vertical Analysis	
	June 2022	December 2021	Increase (Decrease) 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%
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%

Forward

			Horizontal Analysis		Vertical Analysis	
	June	December	Increase (Decrease)		2022	2021
	2022	2021	Amount	%	2022	2021
	<i>(In Millions)</i>					
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 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 the 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 first semester of 2022.

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 first semester of 2022.

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 San Miguel Global Power 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 for purchases of power and coal of the Energy business on account of the increase in prices as at June 30, 2022 compared to 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 VAT 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, San Miguel Global Power and SMC SLEX Inc. 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 six-month period of 2022 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 first semester of 2022 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.

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2023	2022
Net cash flows provided by operating activities	P122,024	P31,995
Net cash flows used in investing activities	(80,333)	(65,446)
Net cash flows provided by (used in) financing activities	(96,778)	27,803

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	
	2023	2022
Additions to intangible assets	(P34,107)	(P19,881)
Additions to property, plant and equipment	(29,444)	(33,465)
Increase in other noncurrent assets and others	(9,916)	(6,971)
Additions to advances to contractors and suppliers	(9,463)	(5,140)
Additions to investment property	(2,507)	(1,523)
Additions to investments and advances	(2,306)	(1,529)
Additions to investments in debt instruments	(445)	(479)
Interest received	6,094	1,628
Dividends received	640	1,049
Proceeds from disposal of investments in debt instruments	439	469
Proceeds from disposal of a subsidiary, net of cash and cash equivalents disposed of	418	307
Proceeds from sale of property and equipment and trademarks	264	89

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

<i>(In millions)</i>	June 30	
	2023	2022
Interest and other financing charges paid	(P46,412)	(P25,392)
Proceeds from (payment of) short-term loans - net	(32,691)	50,328
Payment of cash dividends and distributions	(21,856)	(20,008)
Payments of lease liabilities	(10,498)	(15,976)
Decrease in non-controlling interests' share in the net assets of subsidiaries and others	(2,759)	(1,020)
Redemption of capital securities of a subsidiary	(1,151)	-
Proceeds from long-term debt - net	18,589	39,871

The effect of exchange rate changes on cash and cash equivalents amounted to (P929) million and P8,562 million in June 2023 and 2022, 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 Items II “Financial Performance” and III “Financial Position” for the discussion of certain Key Performance Indicators.

	June 2023	December 2022
<u>Liquidity:</u>		
Current Ratio	1.21	1.22
Quick Ratio	0.75	0.77
<u>Solvency:</u>		
Debt to Equity Ratio	2.74	2.74
Asset to Equity Ratio	3.74	3.74
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	(3.86%)	(4.24%)
Interest Rate Coverage Ratio	1.87	1.66
Return on Assets	1.27%	1.20%
	<u>Period Ended June 30</u>	
	2023	2022
<u>Operating Efficiency:</u>		
Volume Growth	3%	22%
Revenue Growth (Decline)	(4%)	73%
Operating Margin	10%	9%

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	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$

Forward

KPI	Formula
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 P263,402 million as at June 30, 2023.

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

- b. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group does not anticipate 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 and there were no changes in contingent liabilities and contingent assets, except for Note 43 (a) of the Audited Consolidated Financial Statements as at December 31, 2022.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- e. There are no significant elements of income or loss that did not arise from continuing operations.
- f. 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 cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.