CR07649-2020

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended

   Sep 30, 2020

2. SEC Identification Number

   142312

3. BIR Tax Identification No.

   000-083-856-000

4. Exact name of issuer as specified in its charter

   GINEBRA SAN MIGUEL INC.

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   3rd and 6th Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City

   Postal Code

   1550

8. Issuer's telephone number, including area code

   (+632) 8841-5100

9. Former name or former address, and former fiscal year, if changed since last report

   N/A

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON STOCK	286,327,841
PREFERRED STOCK	32,786,885

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

   ☑ Yes ☐ No

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

   The Philippine Stock Exchange, Inc. - Common

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

Ginebra San Miguel, Inc.
GSMI

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

For the period ended	Sep 30, 2020
Currency (indicate units, if applicable)	Php (in thousands)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2020	Dec 31, 2019
Current Assets	10,155,333	9,099,366
Total Assets	15,262,523	14,659,222
Current Liabilities	5,723,447	6,375,690
Total Liabilities	6,236,617	7,539,421
Retained Earnings/(Deficit)	9,123,330	7,162,727
Stockholders' Equity	9,025,906	7,119,801
Stockholders' Equity - Parent	9,364,663	7,559,262
Book Value per Share	28.28	22.31

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	10,500,407	6,735,155	25,343,225	21,429,753
Gross Expense	9,197,542	6,121,841	22,233,153	19,220,591
Non-Operating Income	119,415	42,839	228,166	174,192
Non-Operating Expense	47,410	119,754	117,294	317,218
Income/(Loss) Before Tax	1,374,870	536,399	3,220,944	2,066,136
Income Tax Expense	419,221	191,127	1,088,710	740,967
Net Income/(Loss) After Tax	955,649	345,272	2,212,234	1,325,169
Net Income Attributable to Parent Equity Holder	816,799	501,344	2,057,033	1,814,934
Earnings/(Loss) Per Share (Basic)	3.29	1.16	7.6	4.5
Earnings/(Loss) Per Share (Diluted)	3.29	1.16	7.6	4.5

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	8.81	4.18
Earnings/(Loss) Per Share (Diluted)	8.81	4.18

Other Relevant Information
Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended September 30, 2020. Amounts in thousands pesos, except per share data. The said Report was filed today, 13 November 2020, with the Securities and Exchange Commission through e-mail and SENS.

Filed on behalf by:

Name	Conchita Jamora
Designation	General Counsel and Assistant Corporate Secretary

COVER SHEET

1 4 2 3 1 2

S. E. C. Registration Number

G I N E B R A S A N M I G U E L

I N C .

(Company's Full Name)

3rd and 6th Floors, San

Miguel Properties

Centre, St. Francis

Street, Ortigas

Center, Mandaluyong

City

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

Cynthia M. Baroy

Contact Person

(632) 8841-5100

Company Telephone Number

1	2		3	1		SEC FORM 17-Q (3rd Qtr 2020)				
Month			Day			FORM TYPE		Month		Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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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 **September 30, 2020**

2. Commission identification number **142312**

3. BIR Tax Identification No. **000-083-856-000**

4. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL INC.**

PHILIPPINES

5. Province, country or other jurisdiction of incorporation or organization:

6. Industry Classification Code: [__________] (SEC use only)

3RD and 6TH FLOORS, SAN MIGUEL PROPERTIES CENTRE,
ST. FRANCIS STREET, ORTIGAS CENTER
MANDALUYONG CITY **1550**

7. Address of issuer's principal office Postal Code

(632) 8841-5100

8. Issuer's telephone number, including area code

N.A.

9. 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

	Outstanding Capital Stock and Amount of Debt Outstanding as of September 30, 2020
COMMON SHARES	**286,327,841**
PREFERRED SHARES	**32,786,885**
	319,114,726
TOTAL LIABILITIES	**Php 6,236,617,457**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [/] No [ ]

If yes, state name of such Stock Exchange and the class/es of securities listed therein.

THE PHILIPPINE STOCK EXCHANGE, INC. - Common

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 12 months (or for such shorter period the registrant was required to file such reports)

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Ginebra San Miguel Inc. and its subsidiaries as of and for the period ended September 30, 2020 (with comparative figures as of December 31, 2019 and for the period ended September 30, 2019) and Selected Notes to the Consolidated Financial Statements are attached hereto as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Ginebra San Miguel Inc. may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

NONE

SIGNATURES

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

Issuer	**GINEBRA SAN MIGUEL INC.**
Signature and Title	**Cynthia M. Baroy** VP and Chief Finance Officer
Date	**November 12, 2020**

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(In Thousands)

	Note	2020 Unaudited	2019 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 7*	**P3,543,594**	P354,131
Trade and other receivables - net	*3, 6, 7*	**1,282,030**	1,551,469
Inventories		**3,929,397**	6,113,043
Prepaid expenses and other current assets	*6, 7*	**1,400,312**	1,080,723
Total Current Assets		**10,155,333**	9,099,366
Noncurrent Assets			
Investments in joint ventures		**3,465**	57,963
Property, plant and equipment - net	*2*	**4,234,731**	4,441,137
Right-of-use assets - net		**171,883**	196,218
Goodwill - net		**126,863**	126,863
Deferred tax assets - net		**455,177**	567,944
Other noncurrent assets - net	*3, 6, 7*	**115,071**	169,731
Total Noncurrent Assets		**5,107,190**	5,559,856
		P15,262,523	P14,659,222
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*3, 6, 7*	**P -**	P1,519,000
Accounts payable and accrued expenses	*3, 6, 7*	**5,039,823**	4,208,502
Lease liabilities - current portion	*3, 6, 7*	**46,087**	67,980
Income and other taxes payable		**637,537**	346,417
Current maturities of long-term debt - net of debt issue costs	*6, 7*	**-**	233,791
Total Current Liabilities		**5,723,447**	6,375,690
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt - issue costs	*6, 7*	**-**	642,964
Retirement liabilities		**364,067**	363,083
Lease liabilities - net of current portion	*3, 6, 7*	**149,103**	157,684
Total Noncurrent Liabilities		**513,170**	1,163,731
Total Liabilities		**6,236,617**	7,539,421
Equity			
Capital stock		**399,063**	399,063
Additional paid-in capital		**2,539,454**	2,539,454
Equity reserves		**(365,968)**	(311,470)
Retained earnings:			
Appropriated		**2,500,000**	2,500,000
Unappropriated	*5*	**6,623,330**	4,662,727
Treasury stock		**(2,669,973)**	(2,669,973)
Total Equity		**9,025,906**	7,119,801
		P15,262,523	P14,659,222

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

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(In Thousands, Except Per Share Data)

				For the Quarter Ended	
		2020	2019	2020	2019
	Note	**Unaudited**	Unaudited	**Unaudited**	Unaudited
SALES	*3*	**P25,343,225**	P21,429,753	**P10,500,407**	P6,735,155
COST OF SALES		**18,429,299**	15,544,073	**7,736,457**	4,917,583
GROSS PROFIT		**6,913,926**	5,885,680	**2,763,950**	1,817,572
SELLING AND MARKETING EXPENSES		**(1,926,125)**	(1,935,107)	**(751,282)**	(649,571)
GENERAL AND ADMINISTRATIVE EXPENSES		**(1,877,729)**	(1,741,411)	**(709,803)**	(554,687)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(104,493)**	(126,546)	**(35,595)**	(34,917)
EQUITY IN NET LOSSES OF JOINT VENTURES		**-**	(190,672)	**-**	(84,837)
GAIN (LOSS) ON DISPOSAL / RETIREMENT OF PROPERTY AND EQUIPMENT		**(12,801)**	1,264	**(11,815)**	229
INTEREST INCOME	*3*	**17,882**	24,715	**13,535**	6,887
OTHER INCOME - Net		**210,284**	148,213	**105,880**	35,723
INCOME BEFORE INCOME TAXES		**3,220,944**	2,066,136	**1,374,870**	536,399
INCOME TAX EXPENSE - Net		**(1,008,710)**	(740,967)	**(419,221)**	(191,127)
NET INCOME		**P2,212,234**	P1,325,169	**P955,649**	P345,272
Basic and diluted earnings per share	*4*	**P7.60**	P4.50	**P3.29**	P1.16

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

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(In Thousands)

			For the Quarter Ended	
	2020	2019	**2020**	2019
	Unaudited	Unaudited	**Unaudited**	Unaudited
NET INCOME	**P2,212,234**	P1,325,169	**P955,649**	P345,272
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF JOINT VENTURES THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(54,498)**	14,963	**(14,146)**	5,612
OTHER COMPREHENSIVE INCOME (LOSS)	**(54,498)**	14,963	**(14,146)**	5,612
TOTAL COMPREHENSIVE INCOME - Net of tax	**P2,157,736**	P1,340,132	**P941,503**	P350,884

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

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(In Thousands)

	Note	Capital Stock		Additional Paid-in Capital	Equity Reserves		Retained Earnings		Treasury Stocks		Total
		Common	Preferred		Reserve for Retirement	Cumulative Translation Adjustments	Appropriated	Unappropriated	Common	Preferred	
As of January 1, 2020 (Audited)		**P345,625**	**P53,438**	P2,539,454	(P369,433)	P57,963	P2,500,000	P4,662,727	(P1,947,198)	(P722,775)	P7,119,801
Share in other comprehensive income (loss) of joint ventures		-	-	-	-	(54,498)	-	-	-	-	(54,498)
Net income		-	-	-	-	-	-	2,212,234	-	-	2,212,234
Total comprehensive income (loss) for the period		-	-	-	-	(54,498)	-	2,212,234	-	-	2,157,736
Cash dividends and distributions:	5										
Common		-	-	-	-	-	-	(214,746)	-	-	(214,746)
Preferred		-	-	-	-	-	-	(36,885)	-	-	(36,885)
As of September 30, 2020 (Unaudited)		**P345,625**	**P53,438**	**P2,539,454**	**(P369,433)**	**P3,465**	**P2,500,000**	**P6,623,330**	**(P1,947,198)**	**(P722,775)**	**P9,025,906**
As of January 1, 2019 (Audited)		P345,625	P53,438	P2,539,454	(P241,483)	P42,286	P2,500,000	P3,694,429	(P1,947,198)	(P722,775)	P6,263,776
Adjustments due to Philippine Financial Reporting Standards 16		-	-	-	-	-	-	(20,544)	-	-	(20,544)
As of January 1, 2019, As adjusted		345,625	53,438	2,539,454	(241,483)	42,286	2,500,000	3,673,885	(1,947,198)	(722,775)	6,243,232
Share in other comprehensive income of joint ventures		-	-	-	-	14,963	-	-	-	-	14,963
Net income		-	-	-	-	-	-	1,325,169	-	-	1,325,169
Total comprehensive income for the period		-	-	-	-	14,963	-	1,325,169	-	-	1,340,132
Cash dividends and distributions:	5										
Common		-	-	-	-	-	-	(214,749)	-	-	(214,749)
Preferred		-	-	-	-	-	-	(393,444)	-	-	(393,444)
As of September 30, 2019 (Unaudited)		P345,625	P53,438	P2,539,454	(P241,483)	P57,249	P2,500,000	P4,390,861	(P1,947,198)	(P722,775)	P6,975,171

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

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(In Thousands)

	2020 Unaudited	2019 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**P3,220,944**	P2,066,136
Adjustments for:		
Depreciation and amortization	**541,200**	538,320
Provision for impairment losses	**184,500**	25,611
Interest expense and other financing charges	**104,493**	126,546
Retirement expense	**64,281**	60,914
Loss (gain) on disposal / retirement of property and equipment - net	**12,801**	(1,264)
Net unrealized foreign exchange loss	**1,703**	779
Equity in net losses of joint ventures	**-**	190,672
Interest income	**(17,882)**	(24,715)
Net derivative gain	**(70,901)**	(18,983)
Operating income before working capital changes	**4,041,139**	2,964,016
Decrease (increase) in:		
Trade and other receivables	**76,640**	332,190
Inventories	**2,226,084**	(950,135)
Prepaid taxes and other current assets	**(518,435)**	(234,392)
Increase (decrease) in:		
Trade and other payables	**804,007**	1,796,220
Other taxes payable	**191,109**	(7,591)
Cash generated from operations	**6,820,544**	3,900,308
Interest received	**26,516**	20,603
Contribution to retirement plan	**(63,298)**	(60,914)
Interest and other financing charges paid	**(90,225)**	(115,925)
Taxes paid	**(571,650)**	(409,802)
Net cash flows provided by operating activities	**6,121,887**	3,334,270
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**435**	1,578
Decrease (increase) in other noncurrent assets	**(426)**	42,134
Additions to property, plant and equipment	**(216,191)**	(213,296)
Net cash flows used in investing activities	**(216,182)**	(169,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	**1,664,200**	5,388,000
Payments of:		
Lease liability	**(65,910)**	(57,750)
Cash dividends	**(245,607)**	(604,652)
Long-term borrowings	**(882,353)**	(58,824)
Short-term borrowings	**(3,183,200)**	(7,578,100)
Net cash flows used in financing activities	**(2,712,870)**	(2,911,326)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,372)**	(723)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,189,463**	252,637
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**354,131**	224,475
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P3,543,594**	P477,112

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

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2020 (UNAUDITED)
(In Thousands)

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
Trade Receivables	P585,347	P550,082	P10,836	P3,083	P3,284	P18,062
Non-trade Receivables	1,027,870	100,328	24,391	32,083	25,179	845,889
Total	**1,613,217**	**650,410**	**35,227**	**35,166**	**28,463**	**863,951**
Less: Allowance for doubtful accounts	(331,187)	-	-	-	-	(331,187)
NET RECEIVABLES	**P1,282,030**	**P650,410**	**P35,227**	**P35,166**	**P28,463**	**P532,764**

CERTIFIED CORRECT:

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

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

1. Summary of Significant Accounting and Financial Reporting Policies

Ginebra San Miguel Inc. (GSMI) and its subsidiaries (collectively referred to as the "Group") prepared its interim consolidated financial statements as at and for the period ended September 30, 2020 and comparative financial statements for the same period in 2019 following the presentation rules under Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on November 4, 2020.

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

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

<u>Adoption of Amended Standards and Framework</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards and framework as part of PFRS.

Amended Standards and Framework Adopted in 2020

The Group has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas:

- Amendments to References to Conceptual Framework in PFRS set out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements and* PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, *Financial Instruments,* PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

    - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

    - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

    - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

    - *Separately Identifiable Risk Components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The Group has adopted the below PFRS, effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16, *Leases*). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

  The practical expedient will only apply if all of the following conditions are met: (a) the revised consideration is substantially the same or less than the original consideration; (b) the reduction in lease payments relates to payments originally due on or before June 30, 2021; and (c) no other substantive changes have been made to the terms and conditions of the lease.

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

<u>New and Amended Standards Not Yet Adopted</u>

A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The sales proceeds, together with the costs of production associated with the sales are recognized in profit or loss.

  The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Onerous Contracts: Costs of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the costs of fulfilling a contract comprise both the incremental costs (e.g., direct labor and materials); and an allocation of other direct costs (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply for annual reporting periods beginning on or after January 1, 2022, with early application permitted.

- Annual Improvements to PFRS 2018 – 2020 Cycle contain changes to four standards, of which the following are applicable to the Group:

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

  - Illustrative Examples Accompanying PFRS 16 (Amendment to PFRS 16). The amendment removes the illustration of payments from the lessor relating to leasehold improvements.

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

- Reference to the Conceptual Framework (Amendments to PFRS 3). The amendments updated PFRS 3 to refer to the 2018 Conceptual Framework; added a requirement that, for transactions and other events within the scope of PAS 37 or Philippine Interpretation IFRIC 21, *Levies*, an entity applies PAS 37 or Philippine Interpretation IFRIC 21 instead of the 2018 Conceptual Framework to identify the liabilities it has assumed in a business combination; and added an explicit statement that an entity does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022, with early application permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The amendments clarify that the classification of a liability as current or noncurrent is based on the rights that exist at the end of the reporting period; specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; add guidance about lending conditions and how these can impact the classification; and include requirements for liabilities that can be settled using an entity's own instruments.

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

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

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

2. Related Party Disclosure

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

The following are the transactions with related parties and the outstanding balances as of September 30, 2020 and December 31, 2019:

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company*	**September 30, 2020**	P -	P -	P -	P -	On demand;	Unsecured;
	December 31, 2019	-	-	6	-	Non-interest bearing	No impairment
Intermediate Parent Company**	**September 30, 2020**	**4,501**	**244,838**	**5,004**	**42,646**	On demand;	Unsecured;
	December 31, 2019	109,642	255,044	5,746	69,005	Non-interest bearing	No impairment
Parent Company***	**September 30, 2020**	**182**	-	**36**	-	On demand;	Unsecured;
	December 31, 2019	55	-	5	-	Non-interest bearing	No impairment
Under Common Control	**September 30, 2020**	**337,982**	**2,918,130**	**80,678**	**962,827**	On demand;	Unsecured;
	December 31, 2019	461,483	6,119,006	156,299	1,197,133	Non-interest bearing	No impairment
Joint Venture	**September 30, 2020**	-	**337,573**	**621,407**	**53,073**	On demand;	Unsecured;
	December 31, 2019	19,432	595,431	632,732	39,136	Interest bearing	No impairment
Retirement Plan	**September 30, 2020**	-	-	-	-	On demand;	Unsecured;
	December 31, 2019	-	-	-	-	Non-interest bearing	No impairment
Associate of the Intermediate Parent Company	**September 30, 2020**	**706**	-	**725**	-	3 months;	Unsecured;
	December 31, 2019	-	-	-	857,000	Interest bearing	No impairment
Others	**September 30, 2020**	**475**	-	**533**	-	On demand;	Unsecured;
	December 31, 2019	-	-	-	-	Non-interest bearing	No impairment
Total	**September 30, 2020**	**P343,846**	**P3,500,541**	**P708,383**	**P1,058,546**		
Total	December 31, 2019	P590,612	P6,969,481	P794,788	P2,162,274		

** Top Frontier Investment Holdings, Inc. (TF) is the Ultimate Parent Company of the Group.*
*** San Miguel Corporation (SMC) is the Intermediate Parent Company of the Group.*
**** San Miguel Food and Beverage, Inc. (SMFB) is the Parent Company of the Group.*

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

b. Amounts owed to related parties consist of trade payables and management fees.

c. The amounts owed to associate of the Intermediate Parent Company include interest bearing loans to Bank of Commerce (BOC) presented as part of "Notes Payable" account in the consolidated statements of financial position.

d. Interest income from amounts owed by Thai San Miguel Liquor Company Limited (TSML), recognized in the consolidated statements of income, amounted to P19,380 as of December 31, 2019.

3. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2020 and December 31, 2019

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2019 (Audited)	P789,149	P2,139,487	P309,896	P8,406,120	P919,620	P156,839	P65,037	P12,786,148
Additions	1,325	38,646	59,386	87,117	46,451	7,857	145,849	386,631
Disposals / Retirement	-	-	(16,161)	(62,740)	(32,354)	-	-	(111,255)
Reclassifications	1,976	(4,103)	1,092	45,576	3,417	(418)	(43,706)	3,834
December 31 , 2019 (Audited)	792,450	2,174,030	354,213	8,476,073	937,134	164,278	167,180	13,065,358
Additions	120,000	21,666	7,805	16,237	40,173	1,938	40,373	248,192
Disposals / Retirement	(2,937)	(227)	(13,629)	(20,293)	(9,444)	(10)	-	(46,540)
Reclassifications	8,988	7,471	3,298	22,692	3,258	4,768	(50,474)	-
September 30, 2020 (Unaudited)	**918,501**	**2,202,940**	**351,687**	**8,494,709**	**971,121**	**170,974**	**157,079**	**13,267,010**
Accumulated Depreciation and Amortization								
January 1, 2019 (Audited)	198,934	1,111,479	210,213	5,482,011	764,094	50,413	-	7,817,144
Depreciation and amortization	11,117	75,146	31,610	418,266	67,573	6,706	-	610,418
Disposals / Retirement	-	-	(15,881)	(62,707)	(32,353)	-	-	(110,941)
Reclassifications	757	(3,331)	-	2,861	(480)	193	-	-
December 31 , 2019 (Audited)	210,808	1,183,294	225,942	5,840,431	798,834	57,312	-	8,316,621
Depreciation and amortization	6,120	58,964	30,131	297,603	53,453	6,414	-	452,685
Disposals / Retirement	(2,937)	(177)	(12,873)	(19,186)	(9,444)	(10)	-	(44,627)
Reclassifications	387	(393)		-	6	-	-	-
September 30, 2020 (Unaudited)	**214,378**	**1,241,688**	**243,200**	**6,118,848**	**842,849**	**63,716**	**-**	**8,724,679**
Accumulated Impairment Losses								
December 31, 2019 and September 30, 2020	-	-	-	**307,600**	-	-	-	**307,600**
Carrying Amount								
December 31, 2019 (Audited)	P581,642	P990,736	P128,271	P2,328,042	P138,300	P106,966	P167,180	P4,441,137
September 30, 2020 (Unaudited)	**P704,123**	**P961,252**	**P108,487**	**P2,068,261**	**P128,272**	**P107,258**	**P157,079**	**P4,234,731**

September 30, 2019

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2019 (Audited)	P789,149	P2,139,487	P309,896	P8,406,120	P919,620	P156,839	P65,037	P12,786,148
Additions	1,085	19,517	25,653	44,449	38,604	2,777	81,211	213,296
Disposals / Retirement	-	-	(14,895)	(61,935)	(32,189)	-	-	(109,019)
Reclassifications	1,976	(3,167)	1,092	21,986	2,802	(418)	(24,271)	-
September 30, 2019 (Unaudited)	792,210	2,155,837	321,746	8,410,620	928,837	159,198	121,977	12,890,425
Accumulated Depreciation and Amortization								
January 1, 2019 (Audited)	198,934	1,111,479	210,213	5,482,011	764,094	50,413	-	7,817,144
Depreciation and amortization	5,271	56,386	22,306	316,606	49,780	4,287	-	454,636
Disposals / Retirement	-	-	(14,613)	(61,903)	(32,189)	-	-	(108,705)
Reclassifications	757	(1,505)	-	183	372	193	-	-
September 30, 2019 (Unaudited)	204,962	1,166,360	217,906	5,736,897	782,057	54,893	-	8,163,075
Accumulated Impairment Losses								
September 30, 2019	-	-	-	307,600	-	-	-	307,600
Carrying Amount								
September 30, 2019 (Unaudited)	P587,248	P989,477	P103,840	P2,366,123	P146,780	P104,305	P121,977	P4,419,750

Depreciation and amortization charged to operations amounted to P452,685 and P454,636 for the periods ended September 30, 2020 and 2019, respectively.

4. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and Diluted EPS is computed as follows:

	September 30	
	2020	2019
Net income	**P2,212,234**	P1,325,169
Less: Dividends on preferred shares for the period	**36,885**	36,885
Net income available to common shares (a)	**2,175,349**	1,288,284
Weighted average number of common shares outstanding (in thousands) (b)	**286,328**	286,328
Basic and Diluted Earnings Per Share (a/b)	**P7.60**	P4.50

5. Dividends

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

2020

Class of Shares	**Date of Declaration**	**Date of Record**	**Date of Payment**	**Dividend Per Share**
Common	**March 11, 2020**	**March 27, 2020**	**April 15, 2020**	**P0.250**
	May 27, 2020	**June 15, 2020**	**June 25, 2020**	**0.250**
	August 5, 2020	**August 24, 2020**	**September 3, 2020**	**0.250**
Preferred	**March 11, 2020**	**March 27, 2020**	**April 15, 2020**	**0.375**
	May 27, 2020	**June 15, 2020**	**June 25, 2020**	**0.375**
	August 5, 2020	**August 24, 2020**	**September 3, 2020**	**0.375**

2019

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	March 13, 2019	March 28, 2019	April 15, 2019	P0.250
	May 8, 2019	May 24, 2019	June 14, 2019	0.250
	August 7, 2019	August 30, 2019	September 16, 2019	0.250
Preferred	March 13, 2019	March 28, 2019	April 15, 2019	0.375
	May 8, 2019	May 24, 2019	June 14, 2019	0.375
	August 7, 2019	August 30, 2019	September 16, 2019	0.375

In addition, on March 13, 2019, the BOD approved the declaration and payment of cash dividends in arrears of seven years (from 2012 to 2018) and one quarter in 2002 amounting to P356,557, paid on April 15, 2019 to the holders of preferred shares as of record date, March 28, 2019.

6. 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:

- Interest Rate Risk
- Foreign Currency Risk
- 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, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

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 (the "Committee") to, among others, enhance its oversight capability over the Group's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations; and be responsible for the oversight of the Group's enterprise risk management system to ensure its functionality and effectiveness.

The Committee also has the responsibility to assist the BOD in ensuring that there is an effective and integrated risk management process in place to guide the BOD in arriving at well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. In relation to this, the Committee has the following duties and responsibilities, among others: a.) develop a formal enterprise risk management plan which contains common language or register of risks, well-defined risk management goals, objectives and oversight, uniform processes of assessing risks and developing strategies to manage prioritized risks, designing and implementing risk management strategies, and continuing assessments to improve risk strategies, processes and measures; b.) oversee the implementation of the enterprise risk management plan; c.) evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness; d.) advise the BOD on its risk appetite levels and risk tolerance limits; and e.) review at least annually the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Group.

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

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

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

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

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

Interest Rate Risk Table

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

December 31, 2019	<1 year	1-2 years	>2-3 years	>3-4 years	Total
Fixed rate					
Philippine peso-denominated	P235,294	P235,294	P235,294	P176,471	P882,353
Interest rate	8.348%	8.348%	8.348%	8.348%	
	P235,294	P235,294	P235,294	P176,471	P882,353

<u>Foreign Currency Risk</u>
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.

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

	September 30, 2020		December 31, 2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$257**	**P12,453**	US$26	P1,336
Trade and other receivables	**28**	**1,342**	27	1,370
Foreign currency-denominated monetary assets	**US$285**	**P13,795**	US$53	P2,706

The Group reported net losses on foreign exchange amounting to P1,703 and P779 for the periods ended September 30, 2020 and 2019, respectively, with the translation of its foreign currency-denominated assets. These mainly resulted from the movements of the Philippine peso against the United States (US) dollar as shown in the following table:

	US Dollar to Philippine Peso
September 30, 2020	**48.50**
December 31, 2019	50.64
September 30, 2019	51.83
December 31, 2018	52.58

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
September 30, 2020	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P257)**	**(P180)**	**P257**	**P180**
Trade and other receivables	**(28)**	**(19)**	**28**	**19**
	(P285)	**(P199)**	**P285**	**P199**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2019	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P26)	(P18)	P26	P18
Trade and other receivables	(27)	(19)	27	19
	(P53)	(P37)	P53	P37

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

Commodity Price Risk

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

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

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

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.

<u>Liquidity Risk</u>
Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

September 30, 2020	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P3,543,594	P3,543,594	P3,543,594	P -	P -	P -
Trade and other receivables - net	1,282,030	1,282,030	1,282,030	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	35,960	35,960	35,960	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	493	493	-	493	-	-
Financial Liabilities						
Notes payable	-	-	-	-	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred income and dividends payable)	5,030,261	5,030,261	5,030,261	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	284	284	284	-	-	-
Long-term debt (including current maturities)	-	-	-	-	-	-
Lease liabilities	195,190	279,748	56,940	32,341	56,282	134,185

December 31, 2019	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	P354,131	P354,131	P354,131	P -	P -	P -
Trade and other receivables - net	1,551,469	1,551,469	1,551,469	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	7,373	7,373	7,373	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	493	493	-	493	-	-
Financial Liabilities						
Notes payable	1,519,000	1,526,317	1,526,317	-	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred income and dividends payable)	4,207,463	4,207,463	4,207,463	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	160	160	160	-	-	-
Long-term debt (including current maturities)	876,755	1,028,177	301,338	281,494	445,345	-
Lease liabilities	225,664	319,163	84,879	44,712	62,958	126,614

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. 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 and Noncurrent Receivables
The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base.

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

Credit Quality
In monitoring and controlling credit extended to 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 non-current receivables and deposits.

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

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

	September 30, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand)	**P3,541,459**	P352,261
Trade and other receivables - net	**1,282,030**	1,551,469
Derivative assets	**35,960**	7,373
Noncurrent receivables and deposits	**493**	493
	P4,859,942	P1,911,596

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.

	2020				
	Financial Assets at Amortized Cost				
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVPL	Total
Cash and cash equivalents (excluding cash on hand)	P3,541,459	P -	P -	P -	P3,541,459
Trade and other receivables	1,282,030	-	331,187	-	1,613,217
Derivative assets	-	-	-	35,960	35,960
Noncurrent receivables and deposits	-	493	41,743	-	42,236

	2019				
	Financial Assets at Amortized Cost				
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVPL	Total
Cash and cash equivalents (excluding cash on hand)	P352,261	P -	P -	P -	P352,261
Trade and other receivables	1,551,469	-	251,745	-	1,803,214
Derivative assets	-	-	-	7,373	7,373
Noncurrent receivables and deposits	-	493	149,248	-	149,741

The aging of receivables is as follows:

September 30, 2020	Trade (Third Parties)	Non-trade (Third Parties)	Trade and Non-trade (Related Parties)	Total
Current	P547,844	P67,911	P34,655	P650,410
Past due:				
1 - 30 days	6,967	23,188	5,072	35,227
31 - 60 days	1,186	31,716	2,264	35,166
61 - 90 days	474	25,179	2,810	28,463
Over 90 days	15,185	343,181	505,585	863,951
	P571,656	P491,175	P550,386	P1,613,217

December 31, 2019	Trade (Third Parties)	Non-trade (Third Parties)	Trade and Non-trade (Related Parties)	Total
Current	P440,172	P40,333	P83,522	P564,027
Past due:				
1 - 30 days	170,483	19,864	22,730	213,077
31 - 60 days	210	29,649	15,734	45,593
61 - 90 days	3,640	25,277	290	29,207
Over 90 days	110,889	168,906	671,515	951,310
	P725,394	P284,029	P793,791	P1,803,214

Various collaterals for trade receivables such as bank guarantees, cash bond, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that neither past due nor impaired and 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.

Receivables written-off amounted to P105,058 and P131,231 as of September 30, 2020 and December 31, 2019, respectively.

The Group's cash and cash equivalents and derivative assets 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.

Capital Management

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

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

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

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

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

7. 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 fair value through profit or loss (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.

The Group has no financial assets at FVOCI as of September 30, 2020 and December 31, 2019.

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, and noncurrent receivables and deposits are included under this category.

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for ECL on financial assets at amortized cost.

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

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

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

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

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

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

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

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

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

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

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

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

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

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

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

- deliver cash or another financial asset to another entity;

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

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

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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 carrying amounts and fair values of the Group's financial instruments:

	September 30, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P3,543,594**	**P3,543,594**	P354,131	P354,131
Trade and other receivables - net	**1,282,030**	**1,282,030**	1,551,469	1,551,469
Derivative assets (included under "Prepaid expenses and other current assets" account)	**35,960**	**35,960**	7,373	7,373
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	**493**	**493**	493	493
Financial Liabilities				
Notes payable	**-**	**-**	1,519,000	1,519,000
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rental income and dividends payable)	**5,030,261**	**5,030,261**	4,207,463	4,207,463
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**284**	**284**	160	160
Long-term debt (including current maturities)	**-**	**-**	876,755	957,352
Lease liabilities	**195,190**	**195,190**	225,664	225,664

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

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

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Notes Payable and Accounts Payable and Accrued Expenses. The carrying amount of notes 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 are 1.90% to 2.29% and 3.20% to 3.92% as of June 30, 2020 and December 31, 2019, respectively.

The fair value of lease liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

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 fair value of derivatives that are not designated as hedging instruments are recognized in 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 the host contract is not a financial asset and 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.

The Group has embedded derivatives as of September 30, 2020 and December 31, 2019.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include 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:

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$25,416, US$27,096 and US$10,174 as of September 30 and June 30, 2020 and December 31, 2019, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net fair value of these embedded currency forwards amounted to P35,676, P27,559 and P7,213 as of September 30 and June 30, 2020 and December 31, 2019, respectively.

The Group recognized marked-to-market gains from embedded derivatives amounting to P70,901, P18,983, P28,422 and P29,718 for the periods ended September 30, 2020 and 2019 and June 30, 2020 and 2019, respectively.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for 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 circumstance 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, and based on the lowest level input that is significant to the fair value measurement as a whole, described as follows:

- 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 purposes of the fair value disclosure, 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 Group's derivative assets and derivative liabilities amounting to P35,960 and P284, respectively as of September 30, 2020, and P7,373 and P160, respectively as of December 31, 2019, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

8. Other Matters

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

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

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

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

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

f. The effects of seasonality or cyclicality 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 relationships of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of September 30, 2020.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of September 30, 2020. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

9. Events after Reporting Date

a. *Declaration of Cash Dividends*

On November 4, 2020, the BOD declared cash dividends to all preferred and common shareholders of record as of November 19, 2020 amounting to P0.375 per preferred share and P0.25 per common share. Cash dividends for both common and preferred shares are payable on December 3, 2020.

b. *Effect of Coronavirus Disease 2019 (COVID-19)*

On March 8, 2020, under Proclamation No. 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation No. 929, a state of calamity was declared throughout the Philippines due to the spread of the COVID-19. In response to the increasing number of COVID-19 cases in the country, the government implemented the Enhanced Community Quarantine (ECQ) in National Capital Region and other key cities in Luzon from March 15, 2020 to May 15, 2020, which restricted movements of persons and goods, allowing only essential travel. Among the lockdown measures implemented were the suspension of work or alternative working arrangements in the private sector except in establishments providing basic necessities, restrictions on delivery of goods, suspension of mass transport facilities and travel restrictions. The ECQ was eased starting May 16, 2020 with government converting most cities to Modified Enhanced Community Quarantine including Metro Manila and Cebu until May 31, 2020 while some regions were placed under either General Community Quarantine (GCQ) or Modified General Community Quarantine (MGCQ). On June 1, 2020, quarantine measures were relaxed and National Capital Region was placed under GCQ which further allowed the operation of businesses and certain forms of public transportation.

With the relaxing of the quarantine restrictions, the Group saw a rebound in its sales resulting in an immediate positive impact on the business. The government's efforts to re-open the economy paved the way for the lifting of liquor bans in major cities nationwide which allowed for the resumption of consumption of liquor products.

The extent to which the COVID-19 pandemic impacts the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and abroad where the Group has operations which are highly uncertain and cannot be predicted.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

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

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. ("the Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2020 (with comparative figures as of December 31, 2019 and for the period ended September 30, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE

2020 vs. 2019

The company sustained its volume rebound, recording an overall jump of 33% in the third quarter, registering revenues of P25,343 million, 18% higher than a year ago. Gross profit improved by 17% on account of the price increase which cushioned the increases in excise taxes and material costs.

Interest and other financing charges dropped by 17% driven by the significant decline in interest-bearing liabilities. Similarly, the interest income was also down by 28% on account of higher prior year recognition of interest income from Thailand joint venture.

Several damaged trade assets such as pallets and shells were retired and disposed resulting to a loss of P12 million. In contrast, the 42% increase on other income was primarily due to higher income on tolling and scrap sales.

2019 vs. 2018

Year to date revenue of P21,430 million grew by 20% from last year, which correspondingly increased gross profit by 24% on account of continuous improvement of Ginebra San Miguel, Vino Kulafu and GSM Blue Flavors.

Selling and administrative expenses increased by 7% as a result of additional spending in advertising and promotional expenses and increase in personnel costs.

The decrease in interest and financing charges by 23% was due to reduction of short-term borrowings. On the other hand, interest income increased by 35% contributed by higher money market placements as compared to same period last year.

Moreover, higher tolling income and scrap sale brought the increase in other income.

As a result, third quarter performance registered a net income of P1,325 million, 68% higher than last year performance.

II. FINANCIAL POSITION

2020 vs. 2019

Cash and cash equivalents balance of P3,544 million grew by P3,189 million from previous year due to improved operating income and collection of receivables - which in turn, decreased the company's trade and other receivables by 17%.

The growth in demand of core products, Ginebra San Miguel and Vino Kulafu, decreased the inventories by 36%.

Prepaid and other current assets were up by 30%, which was mainly attributed to higher excise tax prepayments.

Investment in joint ventures declined by 94% due to the effect of exchange rate fluctuations which in turn -affected the cumulative translation adjustment presented under equity reserves.

Accounts payable and accrued expenses increased by 20% as obligations to internal and external suppliers also increased on account of higher production and sales volumes.

Significant increase in income tax payable is brought about by higher taxable income.

Further, as the company's cash balance remained strong, this enabled the settlement of notes payable and long-term debt as of reporting date.

2019 vs. 2018

Cash and cash equivalents increased by 113% on account of higher money market placements resulting from higher collection of trade and other receivables which in turn caused the decrease in trade and other receivables by 19%.

Increase in raw material purchases to support increase in production volume resulted to the increase in inventories by 25%. These higher purchases likewise increased the accounts payable and accrued expenses by 66% against last year.

Right-of-use (ROU) assets of P199 million represents the amount of the Group's various operating lease agreements in view of the adoption of PFRS16. Likewise, increase in lease liabilities (current and noncurrent) by P238 million pertains to the recognition of lease liabilities for right-of-use (ROU) assets.

Notes payable and long-term debt decreased by 88% and 6%, respectively, due to settlement of both short-term and long-term loans.

As the company continues to generate higher taxable income, income and other taxes payables increased by 16%. Equity reserves also increased by 8% as a result of translation adjustments on Thai Joint Venture assets.

Equity

The increase in equity is due to:

	September 30	
	2020	2019
	(In Millions)	
Income during the period	**P2,212**	P1,325
Other comprehensive income (loss)	**(54)**	15
Adjustments due to Philippine Financial Reporting Standards 1€	**-**	(21)
Cash dividends	**(252)**	(608)
	P1,906	P711

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
	2020	2019
	(In Millions)	
Net cash flows provided by operating activities	**P6,122**	P3,334
Net cash flows used in investing activities	**(216)**	(170)
Net cash flows used in financing activities	**(2,713)**	(2,911)

Net cash flows provided by operating activities consist of income before income tax for the period and changes in noncash current assets and certain current liabilities, including net movement in inventory level.

Net cash flows used in investing activities include the following:

	September 30	
	2020	2019
	(In Millions)	
Additions to property, plant and equipment	**(P216)**	(P213)
Decrease in other noncurrent assets	**(0)**	42
Proceeds from sale of property, plant and equipment	**0**	2

Major components of net cash flows used in financing activities are as follows:

	September 30	
	2020	2019
	(In Millions)	
Proceeds from:		
Short-term borrowings	**P1,664**	P5,388
Payments of:		
Lease liabilities	**(66)**	(58)
Cash dividends	**(246)**	(605)
Long-term borrowings	**(882)**	(59)
Short-term borrowings	**(3,183)**	(7,578)

The effect of exchange rate changes on cash and cash equivalents amounted to (P3.4) million and (P0.7) million for the periods ended September 30, 2020 and 2019, respectively.

IV. KEY PERFORMANCE INDICATORS

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

KPI	September 2020	December 2019
Liquidity:		
Current Ratio	**1.77**	1.43
Solvency:		
Debt to Equity Ratio	**0.69**	1.06
Asset to Equity Ratio	**1.69**	2.06
Profitability:		
Return on Average Equity	**28%**	25%
Interest Rate Coverage Ratio	**31.67**	16.27

KPI	Period Ended September 30	
	2020	2019
Operating Efficiency:		
Volume Growth	**3%**	15%
Revenue Growth	**18%**	20%
Operating Margin	**12%**	10%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
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	$\frac{\text{Net Income}}{\text{Average Equity}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of All Businesses' Volume}}{\text{Prior Period Volume}}\right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$