

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, 2019
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 SHARES	286,327,841
PREFERRED SHARES	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, 2019
Currency (indicate units, if applicable)	Php (in thousands)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2019	Dec 31, 2018
Current Assets	7,905,550	6,938,152
Total Assets	13,524,577	12,986,485
Current Liabilities	5,425,197	5,602,918
Total Liabilities	6,549,406	6,722,709
Retained Earnings/(Deficit)	6,890,861	6,194,429
Stockholders' Equity	6,975,171	6,263,776
Stockholders' Equity - Parent	7,327,601	6,148,532
Book Value per Share	21.86	19.63

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	6,735,155	5,869,127	21,429,753	17,914,670
Gross Expense	6,121,841	5,403,212	19,220,591	16,586,744
Non-Operating Income	42,839	16,792	174,192	75,084
Non-Operating Expense	119,754	63,456	317,218	228,383
Income/(Loss) Before Tax	536,399	419,251	2,066,136	1,174,627
Income Tax Expense	191,127	136,946	740,967	385,971
Net Income/(Loss) After Tax	345,272	282,305	1,325,169	788,656
Net Income Attributable to Parent Equity Holder	501,344	259,686	1,814,934	739,271
Earnings/(Loss) Per Share (Basic)	1.16	0.94	4.5	2.63
Earnings/(Loss) Per Share (Diluted)	1.16	0.94	4.5	2.63

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	4.18	3.33
Earnings/(Loss) Per Share (Diluted)	4.18	3.33

Other Relevant Information

Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended September 30, 2019. Amounts in thousands pesos, except per share data.

Filed on behalf by:

Name	Conchita Jamora
Designation	General Counsel and Assistant Corporate Secretary



111132019000503

**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

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Company Name GINEBRA SAN MIGUEL, INC.

Industry Classification

Company Type Stock Corporation

Document Information

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Department CFD

Remarks

COVER SHEET

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S. E. C. Registration Number

G I N E B R A S A N M I G U E L
I N C . A N D
S U B S I D I A R I E S

(Company's Full Name)

3rd a n d 6th F l o o r s , S a n
M i g u e l P r o p e r t i e s
C e n t r e , S t . F r a n c i s
S t r e e t , O r t i g a s
C e n t e r , M a n d a l u y o n g
C i t y

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

Cynthia M. Baroy
Contact Person

(632) 8841-5100
Company Telephone

Number

1 2
Month

3 1
Day

SEC FORM 17-Q (3rd Qtr 2019)
FORM TYPE

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.
Number/Section

Amended Articles

Total No. of Stockholders
Foreign

Total Amount of Borrowings

Domestic

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, 2019**
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**
7. Address of issuer's principal office **1550**
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, 2019 |
|--------------------------|--|
| COMMON SHARES | 286,327,841 |
| PREFERRED SHARES | 32,786,885 |
| | 319,114,726 |
| TOTAL LIABILITIES | Php 6,549,406,257 |
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, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018) 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

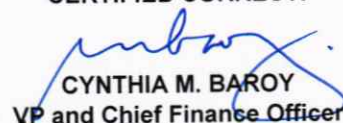
Date **November 12, 2019**

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(In Thousands)

		2019	2018
	Note	Unaudited	Audited
ASSETS			
Current Assets			
Cash and cash equivalents	6, 7	P477,111	P224,475
Trade and other receivables - net	3, 6, 7	1,414,291	1,743,039
Inventories		4,863,701	3,897,939
Prepaid expenses and other current assets	6, 7	1,150,447	1,072,699
Total Current Assets		7,905,550	6,938,152
Noncurrent Assets			
Investments in joint ventures		104,703	280,413
Property, plant and equipment - net	2	4,419,750	4,661,404
Right-of-use asset - net		199,490	-
Goodwill		126,863	126,863
Deferred tax assets - net		508,805	606,005
Other noncurrent assets - net	3, 6, 7	259,416	373,648
Total Noncurrent Assets		5,619,027	6,048,333
		P13,524,577	P12,986,485
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	3, 6, 7	P286,000	P2,476,100
Accounts payable and accrued expenses	3, 5, 6, 7	4,500,076	2,710,947
Lease liabilities - current		58,128	-
Income and other taxes payable		347,202	299,723
Current maturities of long-term debt - net of debt issue costs	6, 7	233,791	116,148
Total Current Liabilities		5,425,197	5,602,918
Noncurrent Liabilities			
Long-term debt - net of debt of issue costs	6, 7	701,409	876,755
Retirement liabilities		243,036	243,036
Lease liabilities - noncurrent	6, 7	179,764	-
Total Noncurrent Liabilities		1,124,209	1,119,791
Total Liabilities		6,549,406	6,722,709
Equity			
Capital stock		399,063	399,063
Additional paid-in capital		2,539,454	2,539,454
Equity reserves		(184,234)	(199,197)
Retained earnings:			
Appropriated		2,500,000	2,500,000
Unappropriated	5	4,390,861	3,694,429
Treasury stock		(2,669,973)	(2,669,973)
Total Equity		6,975,171	6,263,776
		P13,524,577	P12,986,485

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

CERTIFIED CORRECT:

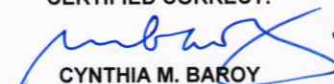

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands, Except Per Share Data)

	Note	2019	2018	For the Quarter Ended	
		Unaudited	Unaudited	2019 Unaudited	2018 Unaudited
SALES	3	P21,429,753	P17,914,670	P6,735,155	P5,869,127
COST OF SALES		<u>15,544,073</u>	<u>13,154,659</u>	<u>4,917,583</u>	<u>4,215,873</u>
GROSS PROFIT		5,885,680	4,760,011	1,817,572	1,653,254
SELLING AND MARKETING EXPENSES		(1,935,107)	(1,806,603)	(649,571)	(700,686)
GENERAL AND ADMINISTRATIVE EXPENSES		(1,741,411)	(1,625,482)	(554,687)	(486,653)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(126,546)	(164,695)	(34,917)	(54,917)
EQUITY IN NET LOSSES OF JOINT VENTURES		(190,672)	(63,688)	(84,837)	(8,539)
GAIN ON DISPOSAL / RETIREMENT OF PROPERTY AND EQUIPMENT		1,264	179	229	25
INTEREST INCOME	3	24,715	18,295	6,887	6,553
OTHER INCOME - Net		<u>148,213</u>	<u>56,610</u>	<u>35,723</u>	<u>10,214</u>
INCOME BEFORE INCOME TAX		2,066,136	1,174,627	536,399	419,251
INCOME TAX EXPENSE		<u>740,967</u>	<u>385,971</u>	<u>191,127</u>	<u>136,946</u>
NET INCOME		<u>P1,325,169</u>	<u>P788,656</u>	<u>P345,272</u>	<u>P282,305</u>
Basic and diluted earnings per share	4	<u>P4.50</u>	<u>P2.63</u>	<u>P1.16</u>	<u>P0.94</u>

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, 2019 AND 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>	<u>For the Quarter Ended</u>	
			<u>2019</u>	<u>2018</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
NET INCOME	<u>P1,325,169</u>	<u>P788,656</u>	<u>P345,272</u>	<u>P282,305</u>
SHARE IN OTHER COMPREHENSIVE INCOME OF JOINT VENTURES THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	<u>14,963</u>	<u>27,087</u>	<u>5,612</u>	<u>10,672</u>
OTHER COMPREHENSIVE INCOME	<u>14,963</u>	<u>27,087</u>	<u>5,612</u>	<u>10,672</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<u><u>P1,340,132</u></u>	<u><u>P815,743</u></u>	<u><u>P350,884</u></u>	<u><u>P292,977</u></u>

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

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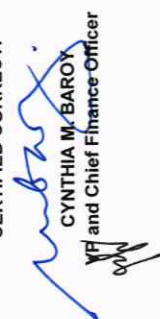

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands)

Note	Equity Reserves											
	Capital Stock		Additional Paid-in Capital	Reserve		Cumulative Translation Adjustment	Retained Earnings			Treasury Stocks		Total
	Common	Preferred		Retirement	Adjustment		Appropriated	Unappropriated	Common	Preferred		
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:												
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
As of January 1, 2018 (Audited)	P345,625	P53,438	P2,539,454	(P421,344)	P25,343	P2,500,000	P2,641,390	(P1,947,198)	(P722,775)			P5,013,933
Share in other comprehensive income of joint ventures	-	-	-	-	27,087	-	-	-	-	-	-	27,087
Net income	-	-	-	-	-	-	788,656	-	-	-	-	788,656
Total comprehensive income for the period	-	-	-	-	27,087	-	788,656	-	-	-	-	815,743
As of September 30, 2018 (Unaudited)	P345,625	P53,438	P2,539,454	(P421,344)	P52,430	P2,500,000	P3,430,046	(P1,947,198)	(P722,775)			P5,829,676

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

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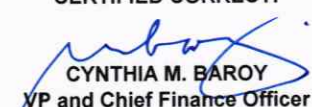

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands)

	2019	2018
	Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P2,066,136	P1,174,627
Adjustments for:		
Depreciation and amortization	538,320	500,424
Equity in net losses of joint ventures	190,672	63,688
Interest expense and other financing charges	126,546	164,695
Retirement expense	60,914	68,565
Provision for impairment losses	25,000	26,711
Net unrealized foreign exchange loss	779	1,539
Provision for doubtful accounts	611	-
Gain on disposal / retirement of property and equipment - net	(1,264)	(179)
Net derivative loss (gain)	(18,983)	25,372
Interest income	(24,715)	(18,295)
Operating income before working capital changes	2,964,016	2,007,147
Decrease (increase) in:		
Trade and other receivables	332,189	122,058
Inventories	(950,135)	(284,723)
Prepaid taxes and other current assets	(234,392)	(201,073)
Increase (decrease) in:		
Trade and other payables	1,796,220	1,202,535
Other taxes payable	(7,591)	39,763
Cash generated from operations	3,900,307	2,885,707
Interest received	20,603	18,037
Contribution to retirement plan	(60,914)	(140,720)
Interest and other financing charges paid	(115,925)	(167,772)
Income taxes paid	(409,802)	(42,729)
Net cash flows provided by operating activities	3,334,269	2,552,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	42,134	(200)
Proceeds from sale of property, plant and equipment	1,578	2,761
Additions to property, plant and equipment	(213,296)	(203,514)
Net cash flows used in investing activities	(169,584)	(200,953)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	5,388,000	32,184,280
Long-term borrowings	-	992,500
Payments of:		
Lease liabilities	(57,750)	-
Long-term borrowings	(58,824)	(114,285)
Cash dividends	(604,652)	(4)
Short-term borrowings	(7,578,100)	(35,071,620)
Net cash flows used in financing activities	(2,911,326)	(2,009,129)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(723)	(1,745)
NET INCREASE IN CASH AND CASH EQUIVALENTS	252,636	340,696
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	224,475	198,767
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P477,111	P539,463

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

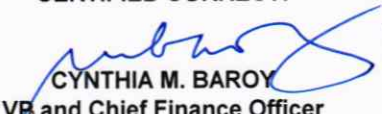
CERTIFIED CORRECT:


CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2019 (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	P693,722	P480,671	P26,683	P8,245	P1,738	P176,385
Non-trade Receivables	1,037,361	92,706	31,124	29,025	7,402	877,104
Total	1,731,083	573,377	57,807	37,270	9,140	1,053,489
Less: Allowance for doubtful accounts	(316,792)	-	-	-	-	(316,792)
NET RECEIVABLES	P1,414,291	P573,377	P57,807	P37,270	P9,140	P736,697

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 of and for the period ended September 30, 2019 and comparative financial statements for the same period in 2018 following the new presentation rules under Philippine Accounting Standard (PAS) No. 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 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.

Adoption of New and Amended Standards and Interpretation

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

New and Amended Standards and Interpretation Adopted in 2019

The Group has adopted the following PFRS effective January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental

borrowing rate ranging from 8.09% to 8.78% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

ASSETS	
Prepaid expenses and other current assets	(P6,588)
Right-of-use assets - net	230,008
Deferred tax assets	26,554
	P249,974
LIABILITIES AND EQUITY	
Lease liabilities	P270,518
Total Liabilities	270,518
Retained earnings	(20,544)
Total Equity	(20,544)
	P249,974

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	P143,225
Recognition exemption for short-term leases	(56,755)
Extension and termination options reasonably certain to be exercised	300,379
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(116,331)
Lease liabilities recognized as of January 1, 2019	P270,518

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the

measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28). The amendments require the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.
- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2019 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 and interpretations on the respective effective dates:

- Amendments to References to Conceptual Framework in PFRS sets 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 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 makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). 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.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8). 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.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

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

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

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

2. Property, Plant and Equipment

Property, plant and equipment consist of:

	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, 2018 (Audited)	P783,880	P2,100,783	P281,351	P8,323,736	P854,575	P156,806	P82,892	P12,584,023
Additions	5,203	33,443	41,364	90,532	51,914	-	51,346	273,802
Reclassifications	66	5,261	7	53,361	14,405	33	(69,201)	3,932
Disposals / Retirement	-	-	(12,826)	(61,509)	(1,274)	-	-	(75,609)
December 31, 2018 (Audited)	789,149	2,139,487	309,896	8,406,120	919,620	156,839	65,037	12,786,148
Additions	1,085	19,517	25,653	44,449	38,604	2,777	81,211	213,296
Reclassifications	1,976	(3,167)	1,092	21,986	2,802	(418)	(24,271)	-
Disposals / Retirement	-	-	(14,895)	(61,935)	(32,189)	-	-	(109,019)
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, 2018 (Audited)	192,357	1,038,360	195,071	5,096,612	712,535	43,972	-	7,278,907
Depreciation and amortization	6,577	73,119	25,385	447,399	52,342	6,441	-	611,263
Reclassifications	-	-	-	(491)	491	-	-	-
Disposals / Retirement	-	-	(10,243)	(61,509)	(1,274)	-	-	(73,026)
December 31, 2018 (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
Reclassifications	757	(1,505)	-	183	372	193	-	-
Disposals / Retirement	-	-	(14,613)	(61,903)	(32,189)	-	-	(108,705)
September 30, 2019 (Unaudited)	204,962	1,166,360	217,906	5,736,897	782,057	54,893	-	8,163,075
Accumulated Impairment Losses								
December 31, 2018	-	-	-	307,600	-	-	-	307,600
and September 30, 2019	-	-	-	307,600	-	-	-	307,600
Carrying Amount								
December 31, 2018 (Audited)	P590,215	P1,028,008	P99,683	P2,616,509	P155,526	P106,426	P65,037	P4,661,404
September 30, 2019 (Unaudited)	P587,248	P989,477	P103,840	P2,366,123	P146,780	P104,305	P121,977	P4,419,750

September 30, 2018

	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, 2018 (Audited)	P783,880	P2,100,783	P281,351	P8,323,736	P854,575	P156,806	P82,892	P12,584,023
Additions	2,600	15,187	21,229	40,900	35,134	-	88,464	203,514
Reclassifications	-	4,977	-	28,998	14,265	-	(54,485)	(6,245)
Disposals / Retirement	-	-	(9,014)	(61,400)	(1,274)	-	-	(71,688)
September 30, 2018 (Unaudited)	786,480	2,120,947	293,566	8,332,234	902,700	156,806	116,871	12,709,604
Accumulated Depreciation and Amortization								
January 1, 2018 (Audited)	192,357	1,038,360	195,071	5,096,612	712,535	43,972	-	7,278,907
Depreciation and amortization	4,899	54,871	18,509	335,564	37,387	4,166	-	455,396
Reclassifications	-	-	-	(491)	491	-	-	-
Disposals / Retirement	-	-	(6,432)	(61,399)	(1,274)	-	-	(69,105)
September 30, 2018 (Unaudited)	197,256	1,093,231	207,148	5,370,286	749,139	48,138	-	7,665,198
Accumulated Impairment Losses								
September 30, 2018	-	-	-	307,600	-	-	-	307,600
Carrying Amount								
September 30, 2018 (Unaudited)	P589,224	P1,027,716	P86,418	P2,654,348	P153,561	P108,668	P116,871	P4,736,806

Depreciation and amortization charged to operations amounted to P454,636 and P455,396 for the periods ended September 30, 2019 and 2018, respectively.

3. Related Party Disclosures

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, 2019 and December 31, 2018:

	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, 2019 December 31, 2018	P - 5	P - -	P - 5	P - -	On demand; Non-interest bearing	Unsecured; No impairment
Intermediate Parent Company**	September 30, 2019 December 31, 2018	107,037 20,960	153,971 235,913	467 5,396	17,520 7,565	On demand; Non-interest bearing	Unsecured; No impairment
Parent Company***	September 30, 2019 December 31, 2018	55 6	- -	- 6	- -	On demand; Non-interest bearing	Unsecured; No impairment
Under Common Control	September 30, 2019 December 31, 2018	314,292 474,674	3,425,911 4,893,263	82,989 229,841	908,413 554,213	On demand; Non-interest bearing	Unsecured; No impairment
Joint Venture	September 30, 2019 December 31, 2018	14,574 20,703	432,569 1,036,147	627,844 623,649	7,436 64,337	On demand; Interest bearing	Unsecured; No impairment
Retirement Plan	September 30, 2019 December 31, 2018	- -	- -	- -	21,150 -	On demand; Non-interest bearing	Unsecured; No impairment
Associate of the Intermediate Parent Company	September 30, 2019 December 31, 2018	- -	- -	- -	286,000 522,100	3 months; Interest bearing	Unsecured; No impairment
Total	September 30, 2019 December 31, 2018	P435,958 P516,348	P4,012,451 P6,165,323	P711,300 P858,897	P1,240,519 P1,148,215		

* Top Frontier Investment Holdings, Inc. (TFI) 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.

- Amounts owed by related parties consist of current and noncurrent receivables and deposits.
- Amounts owed to related parties consist of trade payables and management fees.
- 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.
- Interest income from amounts owed by Thai San Miguel Liquor Company Limited (TSML), recognized in the consolidated statements of income, amounted to P14,521, P9,513 and P20,703 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

4. Basic and Diluted Earnings Per Share (EPS)

Basic and Diluted EPS is computed as follows:

	September 30	
	2019	2018
Net income	P1,325,169	P788,656
Less: Dividends on preferred shares for the period	36,885	36,885
Net income available to common shares (a)	1,288,284	751,771
Weighted average number of common shares outstanding (in thousands) (b)	286,328	286,328
Basic and Diluted Earnings Per Share (a/b)	P4.50	P2.63

5. Dividends

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

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	P0.25
	May 8, 2019	May 24, 2019	June 14, 2019	0.25
	August 7, 2019	August 30, 2019	September 16, 2019	0.25
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.

Interest Rate Risk

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

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

September 30, 2019	<1 year	1-2 years	>2-3 years	>3-4 years	>4-5 years	Total
Fixed rate						
Philippine peso-denominated	P235,294	P235,294	P235,294	P235,294	P -	P941,176
Interest rate	8.348%	8.348%	8.348%	8.348%	-	
	P235,294	P235,294	P235,294	P235,294	P -	P941,176
<hr/>						
December 31, 2018	<1 year	1-2 years	>2-3 years	>3-4 years	>4-5 years	Total
Fixed rate						
Philippine peso-denominated	P117,647	P235,294	P235,294	P235,294	P176,471	P1,000,000
Interest rate	8.348%	8.348%	8.348%	8.348%	8.348%	
	P117,647	P235,294	P235,294	P235,294	P176,471	P1,000,000

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

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

	September 30, 2019		December 31, 2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$135	P7,017	US\$85	P4,485
Trade and other receivables	131	6,791	92	4,823
Foreign currency-denominated monetary assets	US\$266	P13,808	US\$177	P9,308

The Group reported net losses on foreign exchange amounting to P779 and P1,539 for the periods ended September 30, 2019 and 2018, 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, 2019	51.83
December 31, 2018	52.58
September 30, 2018	54.02
December 31, 2017	49.93

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	
	Effect on		Effect on	
	Income before Income Tax	Effect on Equity	Income before Income Tax	Effect on Equity
September 30, 2019				
Cash and cash equivalents	(P135)	(P95)	P135	P95
Trade and other receivables	(131)	(92)	131	92
	(P266)	(P187)	P266	P187

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on		Effect on	
	Income before Income Tax	Effect on Equity	Income before Income Tax	Effect on Equity
December 31, 2018				
Cash and cash equivalents	(P85)	(P60)	P85	P60
Trade and other receivables	(92)	(64)	92	64
	(P177)	(P124)	P177	P124

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.

Liquidity Risk

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

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

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

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

September 30, 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	P477,111	P477,111	P477,111	P -	P -	P -
Trade and other receivables - net	1,414,291	1,414,291	1,414,291	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	4,594	4,594	4,594	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	493	493	-	493	-	-
Financial Liabilities						
Notes payable	286,000	286,665	286,665	-	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred income and dividends payable)	4,491,721	4,491,721	4,491,721	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	79	79	79	-	-	-
Lease liabilities (including current portion)	237,892	343,455	77,101	43,469	84,607	138,278
Long-term debt (including current maturities)	935,200	1,106,697	306,289	286,445	513,963	-

December 31, 2018	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	P224,475	P224,475	P224,475	P -	P -	P -
Trade and other receivables - net	1,743,039	1,743,039	1,743,039	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1,806	1,806	1,806	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	1,326	1,326	296	-	1,030	-
Financial Liabilities						
Notes payable	2,476,100	2,486,977	2,486,977	-	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred income and dividends payable)	2,710,299	2,710,299	2,710,299	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	648	648	648	-	-	-
Long-term debt (including current maturities)	992,903	1,227,865	199,688	301,338	726,839	-

Credit Risk

Credit risk is the risk of financial loss to the Group if 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.

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, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand)	P475,200	P222,339
Trade and other receivables - net	1,414,291	1,743,039
Derivative assets	4,594	1,806
Noncurrent receivables and deposits	493	1,326
	P1,894,578	P1,968,510

The credit risk for cash and cash equivalents and derivative assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

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

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

Cash and Cash Equivalents and Derivative Assets

Cash and cash equivalents and derivative assets are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents has been measured on a 12-month expected credit loss (ECL) basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents and derivative assets have low credit risk based on the external credit ratings of its counterparties.

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.

The aging of receivables is as follows:

September 30, 2019	Trade (Third Parties)	Non-trade (Third Parties)	Trade and Non-trade (Related Parties)	Total
Current	P480,589	P54,569	P38,219	P573,377
Past due:				
1 - 30 days	26,214	25,837	5,756	57,807
31 - 60 days	8,245	28,852	173	37,270
61 - 90 days	1,735	7,397	8	9,140
Over 90 days	176,385	367,748	509,356	1,053,489
	P693,168	P484,403	P553,512	P1,731,083

December 31, 2018	Trade (Third Parties)	Non-trade (Third Parties)	Trade and Non-trade (Related Parties)	Total
Current	P532,687	P147,418	P76,748	P756,853
Past due:				
1 - 30 days	136,383	7,147	34,903	178,433
31 - 60 days	7,112	12,760	57,752	77,624
61 - 90 days	743	5,393	24,699	30,835
Over 90 days	248,629	177,224	662,031	1,087,884
	P925,554	P349,942	P856,133	P2,131,629

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.

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, collectively amounting to P479,794 and P224,145 as of September 30, 2019 and December 31, 2018, respectively.

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, collectively amounting to P1,876,516 and P2,296,599 as of September 30, 2019 and December 31, 2018, respectively.

Impaired financial assets pertain to receivables which will not be recovered amounting to P461,732 and P552,234 as of September 30, 2019 and December 31, 2018, respectively.

Credit Risk Concentration. The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables 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 trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

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 ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

2019					
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired		
Cash and cash equivalents (excluding cash on hand)	P475,200	P -	P -	P -	P475,200
Trade and other receivables	1,414,291	-	316,792	-	1,731,083
Derivative assets	-	-	-	4,594	4,594
Noncurrent receivables and deposits	493	-	144,940	-	145,433
	P1,889,984	P -	P461,732	P4,594	P2,356,310

2018					
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired		
Cash and cash equivalents (excluding cash on hand)	P222,339	P -	P -	P -	P222,339
Trade and other receivables	1,743,039	-	388,590	-	2,131,629
Derivative assets	-	-	-	1,806	1,806
Noncurrent receivables and deposits	1,326	-	163,644	-	164,970
	P1,966,704	P -	P552,234	P1,806	P2,520,744

Receivables written-off amounted to P72,409 and nil as of September 30, 2019 and December 31, 2018, respectively.

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, 2019 and December 31, 2018.

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.

Financial Liabilities

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; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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.

Classification of Financial Instruments between Liability and Equity

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

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

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

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, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P477,111	P477,111	P224,475	P224,475
Trade and other receivables - net	1,414,291	1,414,291	1,743,039	1,743,039
Derivative assets (included under "Prepaid expenses and other current assets" account)	4,594	4,594	1,806	1,806
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	493	493	1,326	1,326
Financial Liabilities				
Notes payable	286,000	286,000	2,476,100	2,476,100
Accounts payable and accrued expenses (excluding derivative liabilities, deferred income and dividends payable)	4,491,721	4,491,721	2,710,299	2,710,299
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	79	79	648	648
Lease liabilities (including current portion)	237,892	237,892	-	-
Long-term debt (including current maturities)	935,200	1,018,860	992,903	1,029,772

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 and Lease 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 of reporting date. Discount rates used for Philippine peso-denominated loans are 3.09% to 4.35% and 5.73% to 7.03% as of September 30, 2019 and December 31, 2018, respectively.

Derivative Financial Instruments and Hedge Accounting

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

The Group uses derivative financial instruments, such as forwards and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. 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, 2019 and December 31, 2018.

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 \$9,436, US\$17,303 and US\$7,868 as of September 30 and

June 30, 2019 and December 31, 2018, 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 P4,515, P22,481 and P1,158 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P18,983, (P25,372), P29,718 and (P17,246) for the periods ended September 30, 2019 and 2018 and June 30, 2019 and 2018, 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 P4,594 and P79, respectively as of September 30, 2019, and P1,806 and P648, respectively as of December 31, 2018, 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 cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other 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, 2019.
- 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, 2019. 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

On November 6, 2019, the BOD declared cash dividends to all preferred and common shareholders of record as of November 22, 2019 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 16, 2019.

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, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2019, 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**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.

2018 vs. 2017

The Group continued to deliver strong performance in the third quarter of 2018, posting a revenue of P17,915 million, 17% higher than prior year due to continuous improvement of volume of core brands Ginebra San Miguel and Vino Kulafu. Likewise, the Group was able to grow its gross profit by 25%.

Selling and administrative expenses increased by 16% due to increase in advertising and promotional expenses, distribution costs and personnel expenses.

Interest and financing charges dropped by 25% due to payment of short term and long term debt.

Income tax expense rose by 72% due to higher taxable income this year versus same period last year.

Consolidated net income as at the end of the third quarter of 2018 is at P789 million, 81% higher than same period last year.

II. FINANCIAL POSITION

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.

2018 vs. 2017

Continuous improvement of cash collection, through the shift of majority of customers to cash payment terms coupled by the improvement in collection, resulted to a decrease in accounts receivable from year ago by 7%, elevating cash and cash equivalents by 171% to P539 million as of September 2018.

Inventories increased by 8% on account of higher purchases of bunker fuel oil and alcohol to support increase in production volume towards end of the year. These higher purchases likewise increased the accounts payable and accrued expenses by 60% against last year.

Investments in joint ventures declined by 11% mainly due to Thai entity losses net of effect of exchange range fluctuation within the year. This has in turn caused equity's cumulative translation adjustment to double its amount versus last year.

Notes payable reduced by 52% as the company continued to settle its short-term obligations thru efficient collection and management of funds. Portion of the company's short-term loan was also converted to long-term, causing the increase in its noncurrent liabilities by 161%.

Equity

The increase in equity is due to:

	September 30	
	2019	2018
	<i>(In Millions)</i>	
Net income for the period	P1,325	P789
Share in other comprehensive income of joint ventures	15	27
Adjustments due to Philippine Financial Reporting Standards 16	(21)	-
Cash dividends	(608)	-
	P711	P816

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
	2019	2018
	<i>(In Millions)</i>	
Net cash flows provided by operating activities	P3,334	P2,552
Net cash flows used in investing activities	(170)	(201)
Net cash flows used in financing activities	(2,911)	(2,009)

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	
	2019	2018
	<i>(In Millions)</i>	
Additions to property, plant and equipment	(P213)	(P204)
Decrease in other noncurrent assets	42	-
Proceeds from sale of property, plant and equipment	2	3

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

	September 30	
	2019	2018
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	P5,388	P32,184
Long-term borrowings	-	993
Payments of:		
Lease liabilities	(58)	-
Long-term borrowings	(59)	(114)
Cash dividends	(605)	-
Short-term borrowings	(7,578)	(35,072)

The effect of exchange rate changes on cash and cash equivalents amounted to (P.7) million and (P1.7) million for the periods ended September 30, 2019 and 2018, 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.

	September 2019	December 2018
Liquidity: Current Ratio	1.46	1.23
Solvency: Debt to Equity Ratio	0.94	1.08
Asset to Equity Ratio	1.94	2.07
Profitability: Return on Average Equity	27%	19%
Interest Rate Coverage Ratio	21.59	7.98

	Period Ended September 30	
	2019	2018
Operating Efficiency: Volume Growth	15%	15%
Revenue Growth	20%	19%
Operating Margin	10%	7%

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

	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	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$