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San Miguel Food and Beverage, Inc.

(incorporated in the Republic of the Philippines)

400,940,590 Common Shares

with an over-allotment option of up to 60,141,090 Common Shares

The Selling Shareholder identified in this Prospectus is offering 400,940,590 common shares (the "**Firm Shares**" with an over-allotment option of up to 60,141,090 common shares (the "**Optional Shares**") (collectively the "**Offer Shares**"). We will not receive any proceeds from the sale of the Offer Shares by the Selling Shareholder.

Our common shares are listed on The Philippine Stock Exchange Inc. (the "**PSE**") under the symbol "**FB**." On October 15, 2018, the closing price of common shares on the PSE was ₱90.50 per share.

Offer Price: ₱85.00 per share

The offering of the Offer Shares has not been registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") and are being offered and sold within the United States only to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A of the U.S. Securities Act and to persons outside the United States in reliance on Regulation S under the U.S. Securities Act.

The Offer Shares are expected to be delivered to purchasers through the Philippine Depositary & Trust Corporation (the "**PDTC**") against payment on or about November 12, 2018.

Investing in the Offer Shares involves risks. See "Risk Factors" beginning on page 11.

Joint Global Coordinators

J.P. Morgan **Morgan Stanley** **UBS**

Joint Bookrunners

Deutsche Bank AG **Goldman Sachs**

Local Lead Underwriters

BDO Capital **BPI Capital**

Financial Adviser

Standard Chartered Bank

THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.

The date of this Prospectus is October 25, 2018

San Miguel Food and Beverage, Inc.
23/F The JMT Corporate Condominium
ADB Avenue, Ortigas Center
Pasig City 1605
Metro Manila
Philippines
Telephone Number: +63 2 317 5000
Corporate Website: https://www.smfb.com.ph

This Prospectus relates to the offer and sale of 400,940,590 common shares (the "**Firm Shares**") with an over-allotment option of up to 60,141,090 common shares (the "**Optional Shares**") (collectively the Firm Shares and the Optional Shares are referred to as the "**Offer Shares**"), with par value of ₱1.00 per share, of San Miguel Food and Beverage, Inc., a corporation organized under Philippine law ("**we**", "**us**", "**our**" or, "**SMFB**", the "**Company**") as further described below. The Offer Shares are existing common shares offered by San Miguel Corporation (the **"SMC"** or the "**Selling Shareholder**") pursuant to a secondary offer.

The Firm Shares shall be offered at a price of ₱85.00 per Share (the "**Offer Price**"). The determination of the Offer Price is described on page 37 of this Prospectus and was based on a book-building process and discussion between us, J.P. Morgan Securities plc ("**J.P. Morgan**"), Morgan Stanley Asia (Singapore) Pte. ("**Morgan Stanley**"), and UBS AG, Singapore Branch ("**UBS**" and together with J.P. Morgan and Morgan Stanley, the "**Joint Global Coordinators**"), and Deutsche Bank AG, Hong Kong Branch ("**Deutsche Bank**") and Goldman Sachs (Singapore) Pte ("**Goldman Sachs**") and together with Deutsche Bank, the "**Joint Bookrunners**"), and BDO Capital & Investment Corporation ("**BDO Capital**") and BPI Capital Corporation ("**BPI Capital**" and together with BDO Capital, the "**Local Lead Underwriters**"). A total of 5,909,220,090 common shares will be outstanding after the Offer (as defined below), assuming full exercise of the Over-allotment Option. The Offer Shares represent approximately 7.8% of our issued and outstanding capital stock after completion of the Offer.

The Offer Shares are listed and traded on the Main Board of The Philippine Stock Exchange, Inc. ("**PSE**") under the trading symbol "FB."

The Selling Shareholder has appointed UBS and its relevant affiliates to act as the stabilizing agent (the "**Stabilizing Agent**"). The Stabilizing Agent has an option exercisable in whole or in part for a period beginning on or after the Offer Shares are delivered in the PSE (the "**Settlement Date**") is made and, if begun, may be ended at any time, but must end no later than 30 calendar days after the Settlement Date, to purchase up to an additional 60,141,090 common shares at the Offer Price from the Selling Shareholder, on the same terms and conditions as the Firm Shares as set forth in this Prospectus, solely to cover over-allotments, if any (the "**Over-allotment Option**"). The offer of the Offer Shares is referred to as the "**Offer**."

Assuming full exercise of the Over-allotment Option, the total proceeds and estimated net proceeds (after deducting fees and expenses payable by the Selling Shareholder) to be raised by the Selling Shareholder from the sale of the Offer Shares will be approximately ₱39,191.9 million and ₱38,368.2 million, respectively. We will not receive any proceeds from the sale of Shares by the Selling Shareholder. See "*Use of Proceeds*" beginning on page 31 of this Prospectus.

The Joint Global Coordinators, Joint Bookrunners, and Local Lead Underwriters will receive a transaction fee from the Selling Shareholder (failing which, from the Company) based on a percentage of the gross proceeds from the sale of the Offer Shares. This is exclusive of the amounts to be paid to the other participating underwriters, if any, and selling agents, where applicable. For a more detailed discussion on the fees to be received by the Joint Global Coordinators, Joint Bookrunners, and Local Lead Underwriters see "*Plan of Distribution*" beginning on page 181 of this Prospectus.

Dividends may be payable in cash, property or shares, subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends. Our Board of Directors may declare dividends, but any stock dividends must be approved by shareholders holding at least two-thirds of our total outstanding capital stock. Our current dividend policy provides for an annual cash dividend payment of up to 60% of the prior year's recurring net income to holders of common shares. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. See "*Dividends and Dividend Policy*" beginning on page 32 of this Prospectus.

12,028,200 of the Offer Shares (the "**Trading Participants' Offer Shares**") or 3.0% of the Firm Shares are (subject to re-allocation as described below) being offered and sold by the Local Lead Underwriters to all the trading participants of the PSE (the "**PSE Trading Participants**") at the Offer Price (subject to re-allocation as described below) in the Philippines (the "**Trading Participants' Offer**"). The Local Lead Underwriters will procure purchasers for or failing which, the Local Lead Underwriters will purchase the Trading Participants' Offer Shares to be offered in the Trading Participants' Offer. Any Trading Participants' Offer Shares allocated to the PSE Trading Participants but not taken up by them, will be distributed by the Local Lead Underwriters to their clients, retail investors, or the general public. Trading Participants' Offer Shares not taken up by the PSE Trading Participants, the Local Lead Underwriters' clients or the general public shall be purchased by the Local Lead Underwriters, pursuant to the terms and conditions of the Domestic Underwriting Agreement, subject to any agreement between the Joint Global Coordinators, Joint Bookrunners, and the Local Lead Underwriters on any clawback, clawforward, or such other mechanism relating to the reallocation of Firm Shares between the Trading Participants' Offer and Institutional Offer as described below.

388,912,390 Offer Shares (the "**Institutional Offer Shares**"), or 97.0% of the Firm Shares, are (subject to re-allocation as described below) being offered for sale (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters (the "**Institutional Offer**").

The allocation of the Offer Shares between the Trading Participants' Offer and the Institutional Offer is subject to adjustment as agreed between the Joint Global Coordinators, the Joint Bookrunners and the Local Lead Underwriters. In the event of the under-application of the Institutional Offer and a corresponding over-application of the Trading Participants' Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants' Offer. If there is an under-application in the Trading Participants' Offer and a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants' Offer may be reallocated to the Institutional Offer. The reallocation shall not apply in the event of over-application or under-application in both the Trading Participants' Offer and the Institutional Offer. The Joint Global Coordinators and Joint Bookrunners will not be involved in the offer of, or underwrite, the Trading Participants' Offer Shares.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale of the Offer Shares made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in our affairs since such date.

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- Risks relating to our businesses and operations;
- Risks relating to the Philippines; and
- Risks relating to the Offer and the Offer Shares.

Please refer to the section entitled "*Risk Factors*" beginning on page 11 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares.

The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. An application has been made with the Philippine SEC to register the sale and offer of the Offer Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "**SRC**").

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.

SAN MIGUEL FOOD AND BEVERAGE INC.

By:

RAMON S. ANG
President and Chief Executive Officer

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this OCT 2 5 2018 in MANDALUYONG CITY, affiant exhibiting to me his Philippine Passport No. P4589066 expiring on October 1, 2022 as competent evidence of identity.

Doc. No. 494;
Page No. 100;
Book No. 1;
Series of 2018.

MA. KRISTINA S. ZAMORA * NOTARY PUBLIC ROLL NO. 61379 * MANDALUYONG CITY, PHILS.

MA. KRISTINA S. ZAMORA
Commission No. 0513-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 61379
PTR No. [illegible]; 01/03/18; Mandaluyong City
IBP [illegible] Number No. 018307; 12/14/17; RSM
MCLE Compliance No. [illegible]; 07/19/17, Pasig City

The Offer Shares are offered subject to receipt and acceptance of any order by us and subject to our right to reject any order in whole or in part in consultation with the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser (as defined below). It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the PDTC on or about November 12, 2018.

No representation or warranty, express or implied, is made by us or the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser regarding the legality of an investment in the Offer Shares under any legal, investment or similar laws or regulations. No representation or warranty, express or implied, is made by the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser as to the accuracy or completeness of the information herein and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own examination of us and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited. Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

THE OFFER SHARES ARE BEING OFFERED IN THE PHILIPPINES ON THE BASIS OF THIS PROSPECTUS ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES IN THE PHILIPPINES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.

SMFB owns land as identified in "*Description of Property*" on page 135. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. Pursuant to regulations, for as long as the percentage of Filipino ownership of SMFB's capital stock is at least 60% of (i) the total shares outstanding and voting shares and (ii) the total number of outstanding shares, whether or not entitled to vote, SMFB shall be considered as a Filipino-owned corporation qualified to own land.

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Offer Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

The operating information used throughout this Prospectus has been calculated by us on the basis of certain assumptions. As a result, this operating information may not be comparable to similar operating information reported by other companies.

The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. We and the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser require persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Each prospective purchaser of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or resells the Offer Shares or possesses and distributes this Prospectus and must obtain any consents, approvals or permissions required for the purchase, offer, sale or resale by it of the Offer Shares under the laws, rules and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or resales, and none of the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser or we shall have any responsibility therefor.

In connection with the Offer, the Stabilizing Agent or any person acting on its behalf may over-allot Offer Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Settlement Date. Any stabilization activities may begin on or after the Settlement Date and, if begun, may be ended at any time, but must end no later than 30 calendar days after such date. Any stabilization activities shall be done in compliance with all applicable laws, rules and regulations. The total number of Shares which the Stabilizing Agent or any person acting in its behalf may purchase to undertake stabilization activities shall not exceed 15% of the aggregate number of the Offer Shares. If the Stabilizing Agent commences any stabilization activities (which would include thereafter disposing of or selling the Shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the Shares will not decline significantly after any such stabilizing activities end.

We, together with the Selling Shareholder, reserve the right to withdraw the offer and sale of Offer Shares at any time. In consultation with the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser, we reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, we shall subsequently notify the Philippine SEC and the PSE. The Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser and certain related entities may acquire for their own account a portion of the Offer Shares.

Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

Standard Chartered Bank has been appointed as financial adviser (the "**Financial Adviser**") to the Selling Shareholder. The role of the financial adviser is separate and distinct from the role of the Joint Global Coordinators, Joint Bookrunners and Local Lead Underwriters. The Joint Global Coordinators, Joint Bookrunners, and Local Lead Underwriters have not relied on the work performed by Standard Chartered Bank in fulfilling their duties.

CONVENTIONS USED IN THIS PROSPECTUS

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to "**we**", "**our**", "**us**", "**SMFB**" or the "**Company**", are to San Miguel Food and Beverage, Inc., or to San Miguel Food and Beverage, Inc. and its consolidated subsidiaries, as the context requires. References to "**SMC**" are to San Miguel Corporation and the term "**San Miguel Group**" refers to SMC and all the group companies under SMC, which includes SMFB. All references to the "**BSP**" are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to "**Philippine Peso**," "**Pesos**" and "**₱**" are to the lawful currency of the Philippines, and all references to "**U.S. dollars**" and "**US$**" are to the lawful currency of the United States. We publish our financial statements in Pesos. All references to the "**Government**" herein are references to the Government of the Republic of the Philippines. All references to "**United States**" or "**U.S.**" herein are references to the United States of America. Certain terms used herein are defined in the "*Glossary*" contained elsewhere in this Prospectus.

EXCHANGE RATE INFORMATION

This Prospectus contains translations of certain Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Pesos to U.S. dollars have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published). See "*Exchange Rates*" on page 36 of this Prospectus for further information regarding the rates of exchange between the Peso and the U.S. dollar.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are reported in Philippine Pesos and are prepared based on our accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standards Council of the Philippines.

Unless otherwise stated, all financial information relating to us contained herein is derived from financial statements stated in accordance with PFRS or interim financial statements stated in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

Our fiscal year begins on January 1 and ends on December 31 of each year. R.G. Manabat & Co. (KPMG Philippines), a member firm of KPMG, has audited our combined financial statements as of and for the years ended December 31, 2017, 2016 and 2015.

NON-PFRS FINANCIAL MEASURES

This Prospectus includes certain non-PFRS financial measures, including Adjusted EBITDA and Adjusted EBITDA Margin. The term "**Adjusted EBITDA**" is computed as net income before: income tax expense, net financing charges (interest income net of interest expense and other financing and bank charges), depreciation and amortization and impairment losses including foreign exchange losses (gains). Adjusted EBITDA Margin is computed as Adjusted EBITDA divided by sales. Adjusted EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with PFRS. Further, Adjusted EBITDA is not a measurement of our financial performance or liquidity under PFRS and should not be considered as an alternative to net income, revenues or any other performance measure derived in accordance with PFRS nor as an alternative to cash flow from operations or as a measure of our liquidity. We believe that Adjusted EBITDA facilitates operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation and amortization of tangible assets (affecting relative depreciation and amortization expenses). We present Adjusted EBITDA because we believe that it is frequently used by securities analysts and investors in the evaluation of companies in our industry.

BASIS FOR CERTAIN MARKET DATA

Market data, statistics and other information relating to markets, market size, market share, market position and other industry data used throughout this Prospectus are based on various sources, on assumptions that we have made that are based on such data and other similar sources, and on our own analysis and knowledge of the markets for our products. These sources include reports and certain industry forecasts that were generated internally, market data and industry forecasts from independent industry publications and a market study (the "**Industry Report**") prepared by GlobalData UK Ltd. ("**GlobalData**") and commissioned by us. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts, market research and the underlying economic assumptions relied upon therein, while believed to be reliable, have not been independently verified, and none of us nor the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser make any representation as to the accuracy of that information.

See the section entitled "*Industry Overview*" on page 65 of this Prospectus for information relating to the industries in which we operate and our engagement of GlobalData. The information contained in the Industry Report has been accurately reproduced, and, as far as we are aware, no facts have been omitted which would render the information provided materially inaccurate or misleading. The Industry Report includes or is otherwise based in part on information supplied to GlobalData by or on behalf of us, including our internal financial and operational information. In addition, we understand from GlobalData that the Industry Report includes or is otherwise based on information obtained from (i) various data collection agencies, industry associations, forums and institutes and private market analysts; and (ii) publicly available information and other information publicly released by corporations and government departments, as well as primary interviews conducted with industry experts and participants and secondary market research.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expected future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- risks relating to our businesses and operations;
- risks relating to the Philippines;
- risks relating to the Offer and the Offer Shares; and
- risks relating to the condition of, and changes in, the Philippine, Asian and global economies.

Additional factors that could cause our actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. We and the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes statements regarding our expectations and projections for future operating performance and business prospects. The words "believe," "plan," "expect," "anticipate," "estimate," "project," "intend," "seek," "target," "aim," "may," "might," "will," "would," "could," and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to our opinions, beliefs, and intentions accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although we give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from our expectations. All subsequent written and oral forward-looking statements attributable to us or persons acting on behalf of us are expressly qualified in their entirety by the above cautionary statements.

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GLOSSARY

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

affiliate	A corporation that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under the common control of, another corporation
Animal Nutrition and Health	Segment of the Food Division that produces integrated feeds (presented under "*Agro-Industrial*" segment in SMPFC's historical financial statements)
ASEAN	Association of Southeast Asian Nations
BDO Capital	BDO Capital & Investment Corporation
Beer and NAB Division	SMFB's beer and non-alcoholic beverage business operating through SMB and its subsidiaries
BIR	The Philippine Bureau of Internal Revenue
Board of Directors or Board	SMFB's board of directors
BOI	Board of Investments
BPI Capital	BPI Capital Corporation
BSP	*Bangko Sentral ng Pilipinas*, the central bank of the Philippines
CAGR	Compound Annual Growth Rate
China	The People's Republic of China (excluding Hong Kong)
DA	The Philippine Department of Agriculture
DENR	The Philippine Department of Environment and Natural Resources
Deutsche Bank	Deutsche Bank AG, Hong Kong Branch
DOH	The Philippine Department of Health
DOLE	The Philippine Department of Labor and Employment
DTI	The Philippine Department of Trade and Industry
ECC	Environmental Compliance Certificate
EIS	Environmental Impact Statement
EMB	Environmental Management Bureau
F&B	Food and Beverage
FBO	Food Business Operator
FDA	The Philippine Food and Drug Administration
FIA	Republic Act No. 7042, otherwise known as the Foreign Investments Act of 1991, as amended

Financial Adviser	Standard Chartered Bank
Firm Shares	400,940,590 existing Shares offered by the Selling Shareholder
Food Division	SMFB's food business, key subsidiaries of which include San Miguel Foods, Magnolia, Inc. and Purefoods-Hormel
Food Safety Act	Republic Act No. 10611, otherwise known as the Food Safety Act of 2013
GlobalData	GlobalData UK Ltd.
Goldman Sachs	Goldman Sachs (Singapore) Pte.
Government	Government of the Republic of the Philippines and all its instrumentalities
Greater Manila	Metro Manila and the surrounding peripheral provinces
GSMI	Ginebra San Miguel Inc.
HL	Hectoliter, a metric unit of capacity equal to one hundred liters
IBI	Iconic Beverages, Inc.
Institutional Offer	The offer for sale of the Institutional Offer Shares (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters.
Institutional Offer Shares	388,912,390 Offer Shares being offered pursuant to the Institutional Offer
Joint Bookrunners	Deutsche Bank and Goldman Sachs
Joint Global Coordinators	J.P. Morgan, Morgan Stanley and UBS
J.P. Morgan	J.P. Morgan Securities plc
Kirin	Kirin Holdings Company, Limited
LGU	Local Government Unit
Livestock and Poultry Feeds Act	Republic Act No. 1556, otherwise known as the Livestock and Poultry Feeds Act, as amended by Presidential Decree No. 7, otherwise known as the Orderly Marketing of Livestock and Animal Products and New Regulations on Animal Feeds issued in 1972
Local Lead Underwriters	BDO Capital and BPI Capital
Morgan Stanley	Morgan Stanley Asia (Singapore) Pte.
NAB	Non-Alcoholic Beverages
NMIS	National Meat Inspection Service
NPD	New Product Development
Offer Price	₱85.00 per Offer Share
Offer Shares	The Firm Shares and the Optional Shares

Optional Shares	Up to 60,141,090 Shares to be sold by the Selling Shareholder and purchased by the Stabilizing Agent upon exercise of the Over-allotment Option
Over-allotment Option	An option granted by the Selling Shareholder to the Stabilizing Agent
Packaging Group	SMYPC, Can Asia, Inc, and San Miguel Yamamura Asia Corporation
Parent Company	SMC
PDS	Philippine Dealing System
PDTC	Philippine Depository and Trust Corporation
Philippine Corporation Code	*Batas Pambansa Blg. 68*, otherwise known as the Corporation Code of the Philippines
Philippine Labor Code	Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines, as amended
Philippine SEC	The Philippine Securities and Exchange Commission
Prepared and Packaged Food	Segment of the Food Division that produces branded value-added refrigerated meats and canned meats, dairy, ice cream, spreads and oils, biscuits and coffee (presented under "*Branded Value-Added*" segment in SMPFC's historical financial statements)
Price Act	Republic Act No. 7581, otherwise known as the Price Act, as amended
Protein	Segment of the Food Division whose products include poultry and fresh meats (presented under "*Agro-Industrial*" segment in the SMPFC's historical financial statements)
PSE	The Philippine Stock Exchange, Inc.
PSE Trading Participants	Duly licensed securities brokers who are trading participants of the PSE
Purefoods-Hormel	The Purefoods-Hormel Company, Inc.
QIB	Qualified institutional buyer, as such term is defined in Rule 144A
Receiving Agent	SMC Stock Transfer Service Corporation
Regulation S	Regulation S under the U.S. Securities Act
R&D	Research and Development
RGB	Returnable Glass Bottle
Rule 144A	Rule 144A under the U.S. Securities Act
San Miguel Foods	San Miguel Foods, Inc.
SCCP	Securities Clearing Corporation of the Philippines
Selling Shareholder	SMC
Shares	The common shares of SMFB, par value of ₱1.00 per share
SKU	Stock Keeping Unit, referring to a distinct product for sale
SMB	San Miguel Brewery Inc.
SMBIL	San Miguel Brewing International Limited

SMC	San Miguel Corporation
SMFB	San Miguel Food and Beverage, Inc.
SMPFC	San Miguel Pure Foods Company Inc., now known as SMFB
SMYPC	San Miguel Yamamura Packaging Corporation
SRC	Republic Act No. 8799, otherwise known as the Philippine Securities Regulation Code, as amended from time to time, and including the rules and regulations issued thereunder
SRP	Suggested Retail Price
Spirits Division	SMFB's spirits and liquor business operated through GSMI and its subsidiaries.
Stabilizing Agent	UBS and its relevant affiliates
Tax Code	The National Internal Revenue Code of the Philippines, as amended
Trading Participants' Offer	The offer for sale of the Trading Participants' Offer Shares to be made in the Philippines.
Trading Participants' Offer Shares	12,028,200 Offer Shares being offered pursuant to the Trading Participants' Offer
TRAIN	Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion
UBS	UBS AG, Singapore Branch
U.S. Securities Act	The United State Securities Act of 1933, as amended
VAT	Value-added tax

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Prospectus, including our financial statements and the notes thereto, included elsewhere in this Prospectus.

Overview

San Miguel Food and Beverage, Inc. ("**SMFB**") is a leading food and beverage company in the Philippines. The brands under which we produce, market and sell our products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy,* for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds. We believe that 87% of SMFB's revenue in 2017 was generated from seven categories where the Company holds the No. 1 position for beverages and food. For the year ended 2017, most of our brands held market-leading positions with our beer brands having an aggregate market share of 92.7% according to GlobalData.

We have three primary operating divisions—(i) beer and non-alcoholic beverages ("**NAB**"), (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise our beverage business (the "**Beverage business**"). We operate our Beverage business through San Miguel Brewery Inc. and its subsidiaries ("**SMB**" or the "**Beer and NAB Division**") and Ginebra San Miguel Inc. and its subsidiaries ("**GSMI**" or the "**Spirits Division**"). Our Food business (the "**Food Division**") is managed through a number of other subsidiaries, including San Miguel Foods, Inc. ("**San Miguel Foods**"), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. ("**Purefoods-Hormel**"). We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to almost 60 markets worldwide.

We are a subsidiary of San Miguel Corporation ("**SMC**" and together with its portfolio of companies, the "**San Miguel Group**"), one of the largest and most diversified conglomerates in the Philippines, with sales equivalent to 5.2% of Philippine GDP in 2017. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, car distributorship and banking services. We are a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation.

We are listed on the PSE under stock code "**FB**". Our market capitalization was ₱534,784 million (US$9,996 million), with a common share price of ₱90.50 as of October 15, 2018. Prior to the Offering, SMC approved and implemented the internal restructuring and consolidation of its food and beverage businesses under SMFB (previously known as "San Miguel Pure Foods Company Inc." or "**SMPFC**") (the "**SMFB Consolidation**"). As part of the SMFB Consolidation, SMB and GSMI were consolidated with the Food Division under SMFB, establishing a unique unit within the San Miguel Group focused on the food and beverage businesses. We believe that following the SMFB Consolidation, we stand to benefit from the synergies and cost savings generated through our expanded size, shared infrastructure and group-wide procurement. We also believe that we will be able to extend our reach to even more consumers across various channels in the Philippines and around the globe, ultimately enhancing shareholder value. See "*Business—Corporate Structure and SMFB Consolidation*."

For each of the years ended December 31, 2015, 2016, and 2017, our food and beverage businesses had combined sales of ₱205,396 million, ₱227,279 million, and ₱251,589 million (US$4,703 million); gross profit of ₱64,699 million, ₱75,171 million and ₱83,129 million (US$1,554 million); Adjusted EBITDA of ₱37,486 million, ₱44,795 million, and ₱49,937 million (US$933 million); and net income of ₱17,854 million, ₱24,002 million, and ₱28,226 million (US$528 million), respectively.

For the six-month period ended June 30, 2017, we had sales of ₱119,130 million, gross profit of ₱38,978 million, Adjusted EBITDA of ₱22,583 million and net income of ₱12,805 million compared to sales of ₱137,441 million (US$2,569 million), gross profit of ₱44,833 million (US$838 million), Adjusted EBITDA of ₱26,569 million (US$497 million) and net income of ₱15,370 million (US$287 million) for the six-month period ended June 30, 2018.

Strengths

We believe that we benefit from the following competitive strengths:

- One of the largest consumer companies in the Philippines with a rich heritage of 128 years
- Powerful portfolio of iconic and trusted brands that resonate deeply with our local consumers
- Leading market positions in the most attractive consumer categories
- Strategically located production facilities providing strong competitive advantages
- Extensive distribution network across the Philippines covering diverse channels
- Our powerful consumer insights drive growth, innovation, and new product development
- Cost efficiency initiatives and unique elements of business model driving strong profitability
- Highly experienced management team supported by the broader San Miguel Group and international partnerships

Strategies

Our principal long-term goal is to further strengthen and solidify our position as the leading food and beverage company in the Philippines, and consistently expand our business to meet rapidly growing consumer demand. We aim to achieve this goal by implementing the following strategies:

- Continued execution of regionally tailored strategies, leveraging on our unique understanding of our consumers
- Maintain our market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development
- Continue to broaden our distribution footprint and enhance penetration across channels throughout the Philippines
- Capacity expansions to support growing consumer demand
- Continued enhancement of profitability through cost saving initiatives
- Leverage existing platform and brand equity in international markets for further growth
- Exploit synergies across our combined and diversified consumer platform
    - Cost synergies
    - Revenue synergies
- SMFB's adoption of a new logo introduces the brand's promise of "*Celebrating Life*"

Risks of Investing

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer Shares. Certain of these risks are discussed in the section entitled "*Risk Factors*" and include risks relating to our businesses and operations, risks relating to the Philippines, and risks relating to the Offer and the Offer Shares.

Company Information

We are a Philippine corporation with its registered office located at the 23/F The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, Metro Manila, Philippines. Our telephone number is**:** +632 317 5000. Our website is: https://www.smfb.com.ph. The information on our website is not incorporated by reference into, and does not form part of this Prospectus.

SUMMARY OF THE OFFER

The following does not purport to be a complete listing of all the rights, obligations, and privileges attaching to or arising from the Offer Shares. Some rights, obligations, or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of the Company and the Offer Shares. Each prospective investor must rely on its own appraisal of the Company and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Shares and must not rely solely on any statement or the significance, adequacy, or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis.

Company	San Miguel Food and Beverage, Inc.
Selling Shareholder	San Miguel Corporation
Joint Global Coordinators	J.P. Morgan Securities plc, Morgan Stanley Asia (Singapore) Pte., and UBS AG, Singapore Branch
Local Lead Underwriters	BDO Capital & Investment Corporation and BPI Capital Corporation
Joint Bookrunners	Deutsche Bank AG, Hong Kong Branch and Goldman Sachs (Singapore) Pte.
Financial Adviser	Standard Chartered Bank
The Offer	Secondary offer of 400,940,590 common shares of SMFB with an over-allotment option of up to 60,141,090 common shares of SMFB
Institutional Offer Shares	388,912,390 Offer Shares (or 97% of the Firm Shares) The Institutional Offer Shares are being offered for sale (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters.
Trading Participants' Offer Shares	12,028,200 Offer Shares (or 3% of the Firm Shares) The Trading Participants' Offer Shares are being offered for sale by the Local Lead Underwriters to all of the PSE Trading Participants in the Philippines.
Offer Shares	461,081,680 common shares consisting of 400,940,590 common shares with an over-allotment option of up to 60,141,090 common shares.
Offer Price	₱85.00 per Offer Share
Over-allotment Option	The Selling Shareholder has granted the Stabilizing Agent, UBS and its relevant affiliates, an option, exercisable in whole or in part, to

	purchase up to 60,141,090 Optional Shares at the Offer Price, on the same terms and conditions as the Offer Shares as set out in this Prospectus, solely to cover over-allotments, if any, and effect price stabilization transactions. The Over-allotment Option is exercisable from time to time for a period which shall not exceed 30 calendar days from and including the Settlement Date. See "*Plan of Distribution—The Over-allotment Option*."
Eligible Investors	See "*Description of the Shares—Foreign Ownership Limits*" on page 162 of this Prospectus. The Institutional Offer Shares are being offered for sale (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters. Purchase of the Offer Shares in certain jurisdictions may be restricted by law. Foreign investors interested in purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares.
Use of Proceeds	All proceeds from the Offer will be received by the Selling Shareholder. We will not receive any proceeds from this Offer. The Selling Shareholder shall use the entire proceeds for this Offer for investments in the San Miguel Group. The board of directors of SMC authorized its management to make any such additional investments, at such time and in such amount as management may deem appropriate, taking into consideration the capital requirements of such investment, including funding requirements of the relevant projects, and opportunities and developments in the relevant industries, among others. See "*Use of Proceeds*."
Minimum Purchase	Minimum of 500 Shares and in multiples of 100 Shares thereafter.
Re-allocation	The allocation of the Offer Shares between the Trading Participants' Offer and the Institutional Offer is subject to adjustment as agreed between the Joint Global Coordinators, the Joint Bookrunners, and the Local Lead Underwriters. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants' Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants' Offer. If there is an under-application in the Trading Participants' Offer and a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants' Offer may be reallocated to the Institutional Offer. The reallocation shall not apply in the event of over-application or under-application in both the Trading Participants' Offer and the Institutional Offer. The Joint Global

	Coordinators and Joint Bookrunners will not be involved in the offer of, or underwrite, the Trading Participants' Offer Shares.
Listing and Trading	All of the Offer Shares are listed and may be traded on the PSE under the symbol "FB." See "*Description of the Shares*." The Company has filed an application with the Philippine SEC for the registration of up to 1,020,050,000 common shares of SMFB. The Philippine SEC is expected to issue an Order of Effectivity and Permit to Sell on October 26, 2018.
Registration of Foreign Investments ...	The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "*Philippine Foreign Ownership and Foreign Exchange Controls—Registration of Foreign Investments and Foreign Exchange Regulations*."
Lock Up	See "*Plan of Distribution—Lock Up*."
Tax Considerations	See "*Philippine Taxation*" for further information on the Philippine tax consequences of the purchase, ownership and disposal of the Offer Shares.
Procedure for Application for the Trading Participants' Offer	Application forms to purchase the Trading Participants' Offer Shares may be obtained from the Local Lead Underwriters. Application forms will also be made available for download on the Company website. Applicants shall complete the application form, indicating all pertinent information, such as the applicant's name, address, contact number, taxpayer's identification number, citizenship and all other information required in the application form. Applicants shall undertake to sign all documents and to do all necessary acts to enable them to be registered as holders of the Trading Participants' Offer Shares. Failure to complete the application form may result in the rejection of the application. All applications shall be evidenced by the application to purchase form, in quadruplicate, duly executed in each case by an authorized signatory of the applicant and accompanied by one completed signature card, which for applicants who are corporations, partnerships or trust accounts, should be authenticated by the corporate secretary (or managing partner in the case of a partnership), and the corresponding payment for the Trading Participants' Offer Shares covered by the application and all other required documents. If the applicant is a corporation, partnership or trust account, the application must be accompanied by the following documents:

- A certified true copy of the applicant's latest articles of incorporation and by-laws (or articles of partnership in the case of a partnership) and other constitutive documents (each as amended to date) duly certified by its corporate secretary (or managing partner in the case of a partnership);
- A certified true copy of the applicant's Philippine SEC certificate of registration duly certified by its corporate secretary (or managing partner in the case of a partnership); and
- A duly notarized corporate secretary's certificate (or certificate of the managing partner in case of partnership) setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares indicated in the application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying to the percentage of the applicant's capital or capital stock held by Philippine nationals.

Foreign corporate and institutional applicants who qualify as eligible investors, in addition to the documents listed above, are required to submit in quadruplicate, a representation and warranty stating that their purchase of the Trading Participants' Offer Shares to which their application relates will not violate the laws of their jurisdictions of incorporation or organization, and that they are allowed, under such laws, to acquire, purchase and hold the Trading Participants' Offer Shares.

Payment Terms for the Trading Participants' Offer ....

Only cashier's or manager's, personal or corporate checks will be acceptable as valid mode of payment. Checks subject to clearing periods of over one banking day shall not be accepted. All checks should be made payable to "SMFB Follow On Offering" crossed "Payee's Account Only," and dated the same date as the application. Check payments for the Trading Participants' Offer Shares must be cleared on or before 9:00 a.m. on November 7, 2018 ("**Trading Participants' Offer Settlement Date**"). The applications and the related payments will be received at any of the designated locations as specified in the PSE Trading Participant Guidelines, to be published by the PSE prior to the start of the Trading Participants' Offer.

Acceptance or Rejection of Applications for the Trading Participants' Offer ....

Applications for the Trading Participants' Offer Shares are subject to the confirmation of the Local Lead Underwriters and our final approval. We, in consultation with the Local Lead Underwriters, reserve the right to accept, reject or scale down the number and amount of Trading Participants' Offer Shares covered by any application. We and the Local Lead Underwriter have the right to reallocate available Trading Participants' Offer Shares in the event that the Trading Participants' Offer Shares are insufficient to satisfy the total applications received. The Trading Participants' Offer Shares will be allotted in such a manner as we and the Local Lead Underwriters may, in our sole discretion, deem appropriate, subject to distribution guidelines of the PSE. Applications with checks dishonored upon first presentation and application forms which do not comply with the terms of the Trading Participants' Offer will be automatically rejected. Notwithstanding the acceptance of any application, the actual acquisition to the Trading Participants' Offer Shares by an applicant will be effective only upon the crossing of the Trading Participants' Offer Shares on the PSE.

Refunds of the Trading Participants' Offer	In the event that the number of Trading Participants' Offer Shares to be received by an applicant, as confirmed by us and the Local Lead Underwriters, is less than the number covered by the application, or if an application is rejected, then the applicant is entitled to a refund, without interest, within five banking days from the end of the offer period or on November 13, 2018, of all or a portion of the applicant's payment corresponding to the number of Trading Participants' Offer Shares wholly or partially rejected. All refunds shall be made through the Receiving Agent with whom the applicant has filed an application, at the applicant's risk.
Taxes and Other Charges	All sell-side taxes and charges in relation to the crossing of the Offer Shares on the PSE shall be for the account of the Selling Shareholder while buy-side taxes and charges shall be for the account of the applicant.
Expected Timetable	The timetable of the Offer is expected to be as follows:

Pricing and allocation of the Offer Shares	October 25, 2018
Notice of final Offer Price to the Philippine SEC and PSE	October 25, 2018
Receipt of the Permit to Sell from the Philippine SEC	October 26, 2018
Public Offer Period	October 29 to November 6, 2018
PSE Trading Participants' Commitment Period	October 29 to 31, 2018
Submission of Firm Order and Commitments by PSE Trading Participants	October 31, 2018, 12:00 noon
Submission of Applications, Required Documents and Payments by PSE Trading Participants	November 6, 2018, 11:00 a.m.
Special Block Sale Approval obtained from the PSE	November 7, 2018
Settlement Date	November 12, 2018

The dates included above are generally subject to the approval of the PSE and the Philippine SEC, market and other conditions, and may be changed.

Risks of Investing	Prospective investors should carefully consider the risks associated with an investment in the Offer Shares before making an investment decision. Certain of these risks are discussed in the section of this Prospectus entitled "*Risk Factors*."
Company Announcement	Our results for the period ended September 30, 2018 are expected to be released on or about November 13, 2018.

SUMMARY OF HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables present the summary of financial information and should be read in conjunction with the independent auditors' reports and our financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information as of and for the years ended December 31, 2015, 2016, and 2017 were derived from our audited combined financial statements, which were prepared in accordance with PFRS and were audited by R.G. Manabat & Co. in accordance with the PSA and from our unaudited condensed consolidated interim financial statements as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2017 and 2018, which were prepared in accordance with PAS 34. The summary historical financial information below is not necessarily indicative of the results of future operations. Furthermore, the translation of Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Pesos were converted to U.S. dollars using the BSP Reference Rate as of June 29, 2018 (the last date in June 2018 that such rate was published) of US\$1.00=₱53.50.

As a result of the acquisition of SMB and GSMI common shares by SMFB, the unaudited condensed consolidated interim financial statements of the Company as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2017 and 2018 have been restated to take into consideration the acquisition of SMB and GSMI common shares by SMFB which is considered to be a business combination of entities under common control.

Summary Statements of Income Information

	For the years ended December 31,				For the six-month period ended June 30,		
	2015	**2016**	**2017**	**2017**	**2017 (As restated)**	**2018**	**2018**
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	₱205,396	₱227,279	₱251,589	US$4,703	₱119,130	₱137,441	US$2,569
Cost of sales	140,697	152,108	168,460	3,149	80,152	92,608	1,731
Gross profit	64,699	75,171	83,129	1,554	38,978	44,833	838
Selling and administrative expenses	(33,847)	(38,128)	(40,728)	(761)	(19,923)	(21, 944)	(410)
Interest expense and other financing charges	(3,472)	(3,212)	(2,658)	(50)	(1,372)	(1,314)	(25)
Interest income	472	511	669	12	317	544	10
Equity in net losses of joint ventures	(110)	(97)	(186)	(3)	(41)	(55)	(1)
Gain on sale of investments and property and equipment	233	149	—	—	12	3	—
Other income (charges)—net	(1,582)	(295)	(365)	(7)	42	(203)	(4)
Income before income tax	26,393	34,099	39,861	745	18,013	21,864	408
Income tax expense	8,539	10,097	11,635	217	5,208	6,494	121
Net income	₱17,854	₱24,002	₱28,226	US$528	₱12,805	₱15,370	US$287
Attributable to:							
Equity holders (1)	17,334	23,267	27,356	512	7,929	9,260	173
Non-controlling interests (2)	520	735	870	16	4,876	6,110	114
	₱17,854	**₱24,002**	**₱28,226**	**US$528**	**₱12,805**	**₱15,370**	**US$287**

Notes:

(1) *For the years ended December 31, 2015, 2016, and 2017, pertains to the net income attributable to equity holders of the combined entities. For the six-month period ended June 30, 2017 and 2018, pertains to the net income attributable to equity holders of SMFB or the Parent Company.*

(2) *For the years ended December 31, 2015, 2016, and 2017, pertains to the net income attributable to non-controlling interests of the combined entities. For the six-month period ended June 30, 2017 and 2018, pertains to the net income attributable to non-controlling interests of SMFB or the Parent Company.*

Summary Statements of Financial Position Information

	As of December 31,				As of December 31,	As of June 30,	
	2015	2016	2017		2017 (As restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Current assets:							
Cash and cash equivalents	₱25,580	₱30,332	₱35,540	US$664	₱35,540	₱35,448	US$663
Trade and other receivables - net	18,128	18,728	18,237	341	18,237	15,508	290
Inventories	21,853	25,296	28,358	530	28,358	30,932	578
Current portion of biological assets —net	3,319	3,122	3,422	64	3,422	3,822	71
Prepaid expenses and other current assets	4,935	4,283	4,872	91	4,872	5,116	96
Total current assets	73,815	81,761	90,429	1,690	90,429	90,826	1,698
Noncurrent assets:							
Investments	596	518	399	7	399	397	7
Property, plant and equipment – net	36,738	41,583	51,125	956	51,125	55,284	1,033
Investment property – net	2,176	2,480	2,100	39	2,100	2,120	40
Biological assets – net of current portion	2,177	2,263	2,695	50	2,695	2,760	52
Goodwill – net	304	304	304	6	996	996	19
Other intangible assets – net	40,109	40,193	40,786	762	40,786	41,021	767
Deferred tax assets	3,256	3,134	2,791	52	2,791	2,692	50
Other noncurrent assets – net	10,519	11,459	13,782	259	13,782	15,944	297
Total noncurrent assets	95,875	101,934	113,982	2,131	114,674	121,214	2,265
Total assets	₱169,690	₱183,695	₱204,411	US$3,821	₱205,103	₱212,040	US$3,963
Current liabilities:							
Notes payable	₱11,982	₱13,124	₱13,939	US$261	₱13,939	₱12,625	US$236
Trade payables and other current liabilities	25,380	26,858	33,609	628	33,609	33,828	632
Income and other taxes payable	4,748	5,088	5,734	107	5,734	5,618	105
Dividends payable	23	26	30	1	30	33	1
Current maturities of long-term debt – net of debt issue costs	179	3,113	114	2	114	12,850	240
Total current liabilities	42,312	48,209	53,426	999	53,426	64,954	1,214
Noncurrent liabilities							
Long-term debt – net of current maturities and debt issue costs	37,795	34,733	34,665	648	34,665	21,896	409
Deferred tax liabilities	140	140	53	1	53	52	1
Other noncurrent liabilities	4,363	2,261	2,338	43	2,338	2,201	41
Total noncurrent liabilities	42,298	37,134	37,056	692	37,056	24,149	451
Total liabilities	84,610	85,343	90,482	1,691	90,482	89,103	1,665
Equity							
Equity holders (1)	80,714	93,423	108,403	2,026	78,682	83,541	1,562
Non-controlling interests(2)	4,366	4,929	5,526	103	35,939	39,396	736
Total equity	85,080	98,352	113,929	2,130	114,621	122,937	2,298
Total liabilities and equity	₱169,690	₱183,695	₱204,411	US$3,821	₱205,103	₱212,040	US$3,963

Notes:

(1) *As of December 31, 2015, 2016, and 2017, pertains to the equity attributable to equity holders of the combined entities. As of June 30, 2018 and December 31, 2017, pertains to the equity attributable to equity holders of SMFB or the Parent Company.*

(2) *As of December 31, 2015, 2016, and 2017, pertains to the equity attributable to non-controlling interests of the combined entities. As of June 30, 2018 and December 31, 2017 (as restated), pertains to the equity attributable to non-controlling interests of SMFB or the Parent Company.*

Summary Statements of Cash Flows Information

	For the years ended December 31,				For the six-month period ended June 30,		
	2015	2016	2017		2017 (As restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by operating activities	₱31,798	₱29,296	₱40,898	US$764	₱21,589	₱19,096	US$357
Net cash flows used in investing activities	(8,383)	(13,483)	(20,410)	(381)	(8,274)	(10,128)	(189)
Net cash flows used in financing activities	(22,721)	(11,343)	(15,307)	(286)	(11,579)	(9,642)	(180)
Effect of exchange rate changes on cash and cash equivalents	204	282	27	-	99	582	11
Net increase (decrease) in cash and cash equivalents	898	4,752	5,208	97	1,835	(92)	(1)
Cash and cash equivalents at beginning of year/period	24,682	25,580	30,332	567	30,332	35,540	664
Cash and cash equivalents at end of year/period	₱25,580	₱30,332	₱35,540	US$664	₱32,167	₱35,448	US$663

Adjusted EBITDA Reconciliation

	For the years ended December 31,				For the six months ended June 30,		
	2015	2016	2017		2017 (As restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net income	₱17,854	₱24,002	₱28,226	US$528	₱12,805	₱15,370	US$287
Add:							
Income tax expense	8,539	10,097	11,635	217	5,208	6,494	121
Interest expense and other financing and bank charges	3,474	3,210	2,658	50	1,372	1,316	25
Depreciation and amortization and impairment losses	8,008	8,037	8,149	152	3,544	3,892	73
Less:							
Interest income	472	511	669	13	317	544	10
Foreign exchange gains (losses)	(83)	40	62	1	29	(41)	(1)
Adjusted EBITDA	**₱37,486**	**₱44,795**	**₱49,937**	**US$933**	**₱22,583**	**₱26,569**	**US$497**
Attributable to:							
Beer and NAB	₱25,685	₱31,345	₱34,932	US$653	₱15,717	₱18,975	US$355
Spirits	1,282	1,514	1,830	34	853	1,185	22
Food	10,519	11,936	13,175	246	6,013	6,409	120
Adjusted EBITDA	**₱37,486**	**₱44,795**	**₱49,937**	**US$933**	**₱22,583**	**₱26,569**	**US$497**

RISK FACTORS

An investment in the Offer Shares involves a number of risks. You should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on our business, prospects, financial condition, results of operations, the market price of the Offer Shares and our ability to make dividend distributions to our shareholders. All or part of an investment in the Offer Shares could be lost. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Our past performance is not a guide to our future performance. There may be a large difference between the buying price and the selling price of the Offer Shares. For investors that deal in a range of investments, each investment carries a different level of risk.

This risk factors discussion does not purport to disclose all of the risks and other significant aspects of investing in the Offer Shares and in certain instances are risks to be faced by certain of our businesses only. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information about us from the Philippine SEC and the PSE. You should seek professional advice if you are uncertain of, or have not understood, any aspect of this Offer or the nature of risks involved in purchasing, holding and trading the Shares. You should consult your own counsel, accountant and other advisors as to the legal, tax, business, financial and related aspects of an investment in the Shares.

The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to certain of our businesses, results of operations, financial condition and prospects.

Risks Relating to Our Businesses and Operations

Our businesses and prospects may be adversely affected by changes in consumer preferences or purchasing power and we may not be successful in introducing new products into the market.

Our ability to successfully develop and launch new products, which is a key part of our strategy, as well as our ability to maintain or increase demand for existing products, depend on the acceptance of these products by consumers, as well as consumers' purchasing power. Consumer preferences may shift for a variety of reasons, including changes in international, national, regional and local economic conditions; culinary, demographic and social trends; leisure activity patterns or consumer lifestyle choices.

There can be no assurance that any new products introduced in the future will generate the estimated consumer interest, estimated revenues or market share that we expect. If our marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, we may incur large expenses without the benefit of higher revenues and our businesses and prospects could be materially and adversely affected.

In addition, as we continue to take advantage of the "premiumization" trend, particularly in the Greater Manila and key cities nationwide, by strengthening the focus on our higher margin premium and upscale brands, our business and prospects become more closely related to, and affected by changes in consumer purchasing power and lifestyles.

Any decrease in consumers' purchasing power or disposable income levels could have a material adverse effect on our financial condition and results of operations.

Competition in our businesses and markets could cause us to lose market share or reduce our operating margins, which could adversely affect our results of operations and financial condition.

We operate in a competitive environment. We believe that we have the highest market share across several of our product categories, however, there is no assurance that we will be able to maintain or grow our current market share. In the food and beverage industry, competitive factors generally include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. We also compete with other discretionary items, including other food and beverage products and other goods and services generally. While we continuously develop new and innovative products to meet our customers' demands and in order to maintain our customer base and market share, if our competitors are able to develop more innovative or better quality products or less expensive products of similar quality, we may not be able to maintain our competitive edge or market share.

In addition, consolidation among our competitors, the entry of new, larger competitors into the Philippine food and beverage market or actions by our competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of our products or cause our market share to decline.

Any failure to successfully compete with our competitors or maintain our customer base and market share could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our financial performance may be materially and adversely affected by disruptions in the supply of, or price fluctuations in, major raw materials.

Many of our products depend on raw materials, most of which are procured from third parties, including purchases of some critical raw materials from both within and outside of the Philippines. These raw materials are subject to price volatility caused by a number of factors including changes in global supply and demand, foreign exchange rate fluctuations, shipping and other transport-related factors, weather conditions, quality of crop and yield and trade and tariff policies, and government regulations and controls.

The Spirits business may face disruptions in the supply of major raw materials. For example, the current global focus on bioethanol fuel has contributed, and is expected to continue to contribute, to higher prices for molasses, which is a major raw material to produce spirits, as traders can choose to sell their molasses to producers of bioethanol rather than of beverage alcohol, thereby causing higher demand and cost.

Water is critical in our beverage operations, and we may not be able to source sufficient quantities or may face increases in water costs in the future. We source our water requirements for our beverage businesses from deep wells and from water utility service providers. The Water Code and its implementing rules and regulations govern the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board. Restrictions on the use of deep well water could disrupt our operations and price increases for the use of deep well water or by water utility service providers could adversely affect our operating costs, which could adversely affect our business, financial condition, results of operations and prospects.

The Food business may be affected by disruptions in the supply of major raw materials which include anhydrous milk fat, wheat and soybean meal supply due to weather conditions of source countries, outbreak of diseases or when geopolitical developments affect trade situations. Another raw material that may be affected is cassava, a substitute raw material in producing animal feeds. Adverse weather conditions and the relative price attractiveness of corn farming versus cassava at certain times may discourage local farmers to plant cassava and switch to planting corn. This may in turn result in the Food Division purchasing a greater quantity of higher cost raw materials which may affect the profit margin of the Food Division.

There is no assurance that raw materials will be supplied in adequate quantities or at the required quality to meet our needs, or that these raw materials will not be subject to significant price fluctuations in the future. Shortages in raw materials may also cause delay in the supply of products to customers. Even though we may, in certain limited instances, be able to shift to alternative raw materials to produce our products, there is no assurance that we will be able to reduce our reliance on these raw materials in the future. We may only have a limited ability to hedge against fluctuations in commodity prices and changes in foreign exchange rates and any hedging activities may not be as effective as planned. Moreover, the market prices of raw materials may increase significantly if there are material shortages due to, among others, competing usage or drastic changes in weather or natural disasters or shifts in demand from other countries such as China and India. Our ability to pass along higher costs through price increases to our consumers is also influenced by competitive conditions and pricing methodologies used in the various markets in which we compete. As such, there is no assurance that any increases in product costs will be passed on to consumers and any price increases that are passed along to consumers will not have a material adverse effect on our price competitiveness and may choose to purchase competing products or shift purchases to lower-priced or other value offerings. As a result, any significant changes or disruption in supply or material increase in the market price of such raw materials could have a material adverse effect on our business, financial condition and results of operations.

Our production may be subject to capacity bottlenecks that could prevent us from realizing full sales potential from the market.

We may face capacity bottlenecks particularly for segments with large consumer markets such as beer and the products produced by the Food Division, the supply for which is largely dependent on production facilities that are already operating at optimum capacities. Capacity bottlenecks could involve both demand generally outpacing the relevant businesses' existing capacity, as well as the risk of major production facilities suffering unexpected outages, maintenance, or other setbacks. Although we continuously seek to enhance the output and efficiency of our existing production facilities and/or increase our production capacity through adding more lines or building more facilities, we may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. We cannot assure prospective investors that we will not experience production difficulties in the future and we cannot assure that we will be able to increase the output and efficiency of our production facilities to respond to increased consumer demand in the future. Furthermore, we cannot assure prospective investors that we will be able to meet increasing demand for our products without having to incur significant additional capital expenditures in the future.

Demand for some of our products is price-sensitive, and sales volumes may fall following any increase in prices, which could negatively affect our financial revenues and results of operations.

The market for food and beverage such as beer and spirits, as well as certain segments of the food market in the Philippines, is price-sensitive. At the same time, demand for many of our products is closely linked to consumers' purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. While we endeavor to increase prices at reasonable level, if we raise the prices of these products, sales volumes could decline and may limit our ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect our revenues and results of operations.

Increases in applicable tax rates, in particular excise taxes applicable to alcoholic beverages, and changes in applicable taxes, incentives and taxation laws, may reduce demand for our products, reduce our margins or reduce both.

We are subject to various taxes, including VAT, excise taxes, duties and tariffs. An increase in prices due to additional taxes may affect demand for our products in the Philippines. In particular, increases in excise taxes on alcoholic beverages may reduce overall consumption of these products and reduce our margins, or both. Previous increases in excise tax rates have adversely affected sales volumes of our beverage business. Increases in excise tax, changes in the applicable tax regime or other taxes and incentives to which we are subject, or the imposition of new taxes on our operations or products, including as a result of ongoing tax reforms by the Government may (i) reduce consumption of our products if passed on to the consumers by way of upward price adjustments, (ii) reduce our margins if prices remain unchanged, or (iii) have both such effects if additional taxes are not fully passed on to the consumers. These, in turn, may materially and adversely affect our business, financial condition and results of operations.

We may fail to realize the business growth opportunities, benefits and other synergies anticipated from, or may incur unanticipated costs associated with or resulting from, the SMFB Consolidation.

There is no assurance that the SMFB Consolidation and expected synergies will be implemented with minimal disruption to operations. In addition, the SMFB Consolidation involves risks and uncertainties, including, but not limited to: (i) inability to fully realize the anticipated scale, cost and funding of synergies from the SMFB Consolidation due to difficulties, delays or unexpected costs, and (ii) diversion of resources and management's attention from the management and handling of daily operations. The inability to successfully address the above risks may have an adverse effect on our business, financial condition and results of operations.

Our third party contractors may fail to perform their obligations, or we may be unable to find new contractors to meet increased consumer demand, which may affect our businesses and results of operations, including revenues and profitability, which could be materially and adversely affected.

We outsource part of our manufacturing, production and logistics operations to third party contractors. Our ability to bring products to the market could suffer if a significant number of our third party contractors fail to manufacture or distribute products in a timely manner. While we only engage the services of reputable contractors, our third party contractors may experience labor disruptions or otherwise encounter production difficulties which may affect the quantity and quality of our products. In addition, we may not successfully renew existing agreements or have contractual disputes with our third party contractors. There is no assurance that we will continue to find sufficient new third party contractors to meet increased customer demand in the future, which could materially and adversely affect our businesses and prospects. Furthermore, we operate in an industry that is subject to many regulatory regimes, including, but not limited to, labor, safety, health, environmental, and insolvency matters. Failure on the part of a significant number of third party contractors to comply with any of these regulatory regimes could materially and adversely affect our businesses and prospects.

Sales of our products may be adversely affected if our relationship with dealers and distributors deteriorate.

Our products are primarily sold through dealers and distributors. Although many of these dealers and distributors have been dealing with us for many years, and while we intend to continuously exert effort to provide them support, there is no assurance that these dealers and distributors will continue to purchase and distribute our products, or that these dealers and distributors can continue to effectively distribute our products without delays or interruptions. In addition, the financial instability of, contractual disputes with, or labor disruptions at our dealers and distributors could disrupt the distribution of our products and adversely affect our business.

Our business and prospects may be materially and adversely affected by increased imports of lower-priced products as import duties are decreased or eliminated.

We may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, including the ASEAN Trade in Goods Agreement, the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the ASEAN-Korea Comprehensive Economic Cooperation Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN People's Republic of China Comprehensive Economic Cooperation Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement, the Philippines-European Free Trade Association Free Trade Agreement, the ASEAN-India Comprehensive Economic Cooperation Agreement, the ASEAN-India Free Trade Area Agreement, the ASEAN Trade in Goods Agreement (ATIGA), the European Free Trade Association (EFTA), and the ASEAN-Hong Kong, China Free Trade Agreement each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, with the coming into force of ATIGA, the Philippines eliminated intra-ASEAN import duties on 99.56% of its tariff lines including poultry, meat of bovine animals, flour, sausage, prepared or preserved meat, cereals, bread, pastry, cakes, biscuits, fruit juices, coffee, tea or maté, sauces and preparations, ice cream, beer, certain spirits, liqueurs, and spirituous beverages.

We have already experienced the effects of increased competition as a result of the elimination of these import duties, and expect that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, and from other countries party to a Free Trade Agreement with the Philippines, such as China and Japan, could give rise to increased competition for our products.

Our Food Division faces competition from other countries. The Protein segment competes with the import of chicken leg quarters from U.S. and Brazil. Our Flour Milling business competes with imported flour sourced from Turkey, Vietnam, and Indonesia. The Prepared and Packaged Food segment faces challenges from imports of butter, corned beef, luncheon meat, cheese, milk and biscuits, partly due to a decrease of the tariffs imposed on specific products under the free trade agreements. If we are unable to compete effectively with lower-priced imports, our market share and sales may decrease, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Outbreak of diseases, food and beverage safety and foodborne illness concerns could adversely affect our financial condition and results of operations.

Our Protein segment is subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms we own or have contracted. The livestock and poultry industries in the Philippines have experienced outbreaks of disease in the past. For example, there were sporadic cases of Porcine Epidemic Diarrhea (PED) during the third quarter of 2016 and first quarter in 2017 when two of our farms were affected, the Newcastle disease outbreak in the first quarter of 2016 and the Avian Influenza (H5N6) during the third quarter of 2017. These incidents negatively affected revenue growth of the Protein segment for those periods.

In addition, any outbreak of a contagious disease in the Philippines, such as bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of a contagious disease could adversely affect consumer demand for our products, and our ability to adequately staff operations and distribution networks of our products, as well as the general level of economic activity in the Philippines. There can be no assurance that our policies and controls in our facilities to prevent the outbreak and recurrence of diseases, including the separation of hog breeding, nursery and growing operations, bird proofing to prevent the entry of migratory birds into our poultry facilities and strict visitor screening and sanitation procedures for entrance to any of our facilities, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting our livestock production in the Philippines or elsewhere will not occur. We cannot assure our prospective investors that any future outbreak of a contagious disease will not have a material adverse effect on our business, financial condition and results of operations.

Moreover, there can be no assurance that our internal controls and policies will be fully effective in preventing all food and beverage safety issues concerning the products we sell, including any occurrences of foodborne illnesses such as Salmonella, E. coli and Hepatitis A. Particularly for the Food Division, selling conditions in the trade, especially in wet markets, makes fresh food vulnerable to the risk of foodborne illness. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of food and beverage safety or a foodborne illness related to our products could negatively affect our sales. This risk exists even if it were later determined that the illness was wrongly attributed to our products. The occurrence of food and beverage safety or a foodborne illness incident, or negative publicity or public speculation about an incident, could have a material adverse effect on our business, financial condition and results of operations.

Product liability claims or other similar circumstances could harm the reputation of, and customer support for, our products and materially reduce the sales and profitability of our business.

Our success depends largely upon consumers' perception of the reliability and quality of our products. Any event or development that detracts from the perceived reliability or quality of our products could materially reduce demand. For example, a contamination of our Beer and NAB Division's or Food Division's products by bacteria or other external agents, such as Listeria monocytogenes, Salmonella or E. coli, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. Improper storage and handling may result in spoilage, defects, recalls, or complaints that may be encountered by the Food Division for temperature-sensitive products. Product liability claims, whether or not they are successful, could adversely affect the reputation of our brands which may result in reduced sales and profitability of the affected brand or our brands in general. In particular, we have little, if any, control over handling procedures once our products have been dispatched for distribution and are, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against us, there is no assurance that any such product liability claims will not be filed against us in the future, and any such product liability claim, whether or not successful, could damage our reputation and our products, and could have a material adverse effect on our financial condition and results of operations.

Our reputation depends on the use of certain brand names, trademarks, and other intellectual property rights, including the "San Miguel" brand name and the infringement of these rights could adversely affect our competitive position.

We exclusively own licenses from SMC and its related companies, and/or otherwise use various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell our products in the Philippines, including, *San Miguel, Purefoods, Purefoods Tender Juicy, Magnolia, B-Meg, Monterey, Star, Dari Crème,* and *Ginebra San Miguel*. Protection of these brand names, trademarks, and intellectual property rights is important to maintaining our distinctive corporate and market identities. If third parties sell products that use counterfeit versions of our brands or otherwise look like our brands, consumers may confuse our products with products that are inferior. This could negatively impact our brand image and sales.

While we have been granted numerous trademark registrations covering our brands and products, and have filed, and expect to continue to file, trademark applications seeking to protect newly developed brands and products, there can be no assurance that third parties will not challenge or infringe any existing or future trademarks issued to, or licensed by us. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent misappropriation of these rights or the use by others of our concepts, and it may be difficult for us to prevent others from copying elements of our concept. Any litigation to enforce our rights will likely be costly and may not be successful.

We are responsible for defending against all infringements on our brand names, related trademarks, and other intellectual property rights, and we vigilantly monitor products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of our brand names, related trademarks, and other intellectual property rights. We also retain the services of independent external counsels and trademark watch report providers to alert us of any such attempts and to enjoin third parties from the use of colorable imitations of our brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition. Although we believe that we have legal rights under existing and applicable laws to all our brand names, trademarks, and intellectual property rights, we may face claims of infringement that could interfere with our ability to market our products and promote our brands. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks in the future and may be liable for damages.

Any failure to protect our brand names, trademarks, and other intellectual property rights may significantly harm our competitive position and could materially and adversely affect our business, financial condition, results of operations and prospects, as well as our reputation.

Damage to our reputation, key brand names and the "San Miguel" brand, and negative publicity, could negatively impact our business.

We believe that the *San Miguel* brand and other key brands such as *Magnolia, Purefoods, Purefoods Tender Juicy, Monterey, Star, Dari Creme* and *Ginebra San Miguel* are positively perceived by consumers in the Philippines as a result of their long-standing presence in the Philippine market. We also believe these brand names lend our products an image of trust and quality. Although we rely significantly on the *San Miguel* brand name, we have little or no control over its use by other members of the San Miguel Group or any other third parties. Our brand image could be negatively affected by product quality or other reputational issues caused by these other users of the brands and trademarks of SMC. Any incident that erodes consumer affinity for our brands could significantly reduce their value and damage our business. Any decrease in the brand equity of the *San Miguel* brand name could have an adverse effect on our competitive position, sales and results of operations and could materially and adversely affect our reputation, business, financial condition, results of operations, and prospects.

In addition, we may be adversely affected by news reports or other negative publicity, regardless of their accuracy, regarding food and beverage quality issues, public health concerns, illness, safety, injury, customer complaints or litigation, health inspection results, food and beverage processing practices, employee relationships or government or industry findings concerning our operations or operations of third parties that we engage or contract with. The risks associated with such negative publicity cannot be completely eliminated or mitigated and may materially harm our results of operations and may result in damage to our brands. In addition, there has been marked increase in the use of social media platforms and similar devices, including blogs, social media sites and other forms of Internet-based communications that allow individuals' access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content to their subscribers and participants can post, often without filters or checking the accuracy of the content posted. Information concerning us may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction.

Our controlling shareholder may take actions that may conflict with our public shareholders' best interests.

SMC is our single largest shareholder which holds 95.87% of SMFB's Shares as of the date of this Prospectus. Upon consummation of the Offer, SMC's ownership would decrease to approximately 88.07% (assuming full exercise of the Over-allotment Option). If the Over-allotment Option is not exercised, then SMC's ownership would be approximately 89.09%.

SMC controls SMFB, including our management, policies and businesses, through its ability to control actions that require majority shareholder approval, or actions that require two-thirds of the total outstanding capital stock for actions specified under the Philippine Corporation Code, and through its representatives on our Board of Directors. The interests of SMC may differ from the interests of other shareholders. SMC is not obligated to provide us with financial support or to exercise its rights as a shareholder in SMFB's best interests or the best interests of SMFB's minority shareholders. In addition, SMC may engage in activities that conflict with such interests. If the interests of SMC conflict with the interests of our other shareholders, or if SMC chooses to cause

SMFB to pursue strategic objectives that conflict with the interests of our other shareholders, those shareholders could be disadvantaged by the actions that SMC chooses to pursue. To the extent that there are conflicts of interest between SMC and SMFB or its other shareholders, there can be no assurance that SMC will not choose to pursue strategic objectives that may not be aligned with the interests of SMFB or its other shareholders.

In addition, SMC has ownership interests in a number of companies in the Philippines, including companies that are involved in businesses related to our businesses, or which have entered into, or may enter into, business transactions with us, such as transactions with Packaging Group for packaging materials. We also benefit from our ongoing relationship with SMC and some of its subsidiaries and affiliates through their global reach and relationships. There can be no assurance that SMC or its officers or directors will make corporate opportunities available to us or will continue to allow us to have access to such benefits in the future. For further information, see "*Related Party Transactions*."

The growth in the number and scale of supermarkets as well as a general consolidation of major sales and distribution channels in the Philippines may materially and adversely affect our financial condition and results of operations.

The Philippine retail market has historically been highly fragmented and dominated by numerous "*sari-sari*" stores (traditional neighborhood stores selling assorted grocery items and general merchandise, also known as "***mom* and *pop* stores**") across the country, groceries and traditional wet markets. Traditional wet markets remain a major source of food products for many Philippine consumers. *Mom* and *pop* stores service limited geographical areas and purchase relatively small quantities of our products from distributors, dealers and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines which may result in the decline in the number of *mom* and *pop* stores which is traditionally more patronized by the larger lower-income bracket consumers. There is a risk that our businesses may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. There is no assurance that supermarkets or one of these larger customers will not exert downward pressure on wholesale prices of our products, which could have a material adverse effect on our financial condition and results of operations.

We rely on third parties for transportation of our supplies and on dealer and distributors for the distribution of our finished products throughout the Philippines, and any disruption in their delivery and distribution or an increase in costs could adversely affect our financial condition and results of operations.

Our businesses require significant movement of raw materials, packaging materials and finished products by land and sea transportation. We engage third party contractors for the transportation and delivery of our raw materials, packaging materials, and finished products, while our dealers and distributors purchase our products for resale and distribution to retailers and customers. Such third party contractors as well as dealers and distributors operate beyond our direct control.

In addition, distribution and transportation of our raw materials, packaging materials, and finished products could be adversely affected by extraordinary events, including road construction or closures of primary access routes, port congestion, flood, typhoon or other severe weather conditions, directives from government agencies or power interruptions. Any interruptions in the delivery or poor handling by third party contractors of raw materials, packaging materials, or finished products, or in the distribution by dealers and distributors of finished products may affect our sales, and damage our reputation.

Additionally, although the costs for inbound freight are mainly included in the price of supplies, this is not always the case for outbound freights. The costs for such outbound freights could increase, which could adversely affect our ability to supply customers at current prices and meet customers' demand for our products. As a result, we could experience a significant increase in operating costs, which could have a material adverse effect on our business, financial condition and results of operation.

We are exposed to our customer credit risk, and payment defaults by our customers could have a material adverse effect on our financial condition, results of operations and liquidity.

We are exposed to the credit risk of our customers, and defaults on material payments owed to us by customers could significantly reduce our operating cash flows and liquidity, as well as have a material adverse effect on our financial condition and results of operations. Some of our customers could also experience cash flow difficulties or become subject to liquidation that could in turn lead to us being unable to collect payments or experiencing long delays in collection of payments, if at all. Trade receivables are non-interest bearing and are generally on seven to 60-day terms. There is no assurance that our exposure to the risk of delayed payments from our customers or defaults in payment by our customers will not increase, or that we will not experience losses or cash flow constraints as a result. If any of these events were to occur, these could have a material adverse effect on our financial condition, results of operations and liquidity.

Labor disputes, including failure to maintain satisfactory labor relations, or changes in employment laws may disrupt our operations and could adversely affect our business, prospects, financial condition and results of operations.

We are subject to a variety of national and local laws and regulations in the Philippines and in those jurisdictions outside the Philippines where we operate, including those relating to labor. As of June 30, 2018, 29% of our employees are members of labor unions from our Philippines, China, Vietnam and Indonesia operations. Our labor unions comprise rank and file employees. Under the Philippine Labor Code, a labor union serves as the certified collective bargaining representative of the relevant bargaining unit (i.e., rank and file; supervisors unit). Accordingly, we negotiate our collective bargaining agreements with the newly elected collective bargaining representative every five years. The economic provisions of existing collective bargaining agreements are renegotiated not later than three years from the execution of such agreement. See "*Business—Human Resources—Labor Agreements*". There can be no assurance that we will be able to reach an agreement when negotiating our collective bargaining agreements nor that any agreement will be ratified by the union and that we will not experience a labor disruption. We have in the past, and may in the future, be required to defend against labor claims. There can be no assurance that we will not experience labor unrest, activism, and difficulty negotiating collective bargaining agreements or disputes or actions in the future, some of which may be significant and could adversely affect our business, prospects, financial condition and results of operations.

We generally consider our labor relations to be good and harmonious. However, there can be no assurance that we will not experience future disruptions to our operations due to labor disputes. In addition, any changes in labor laws and regulations could result in our having to incur substantial additional costs to comply with increased minimum wage and other labor laws. Any of these events may materially and adversely affect our business, financial condition and results of operations.

Various labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to independent third party contractors, could materially affect our business, financial condition, operating results or cash flow. Outsourcing carries with it certain inherent risks including potential actions from employees of our third-party service providers who may claim an employee-employer relationship with us and the risk that third party contracting arrangements in place are found by the DOLE to be "labor-only contracting", which could have a significant impact on our labor costs. In addition, a labor dispute involving a substantial number or all of our employees may harm our reputation, disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs. See "*Regulatory and Environmental Matters*."

We are also exposed to litigation risk from employees of our various third party contractors, who may implead the Company as party to their labor cases and labor disputes against these third party contractors.

We are subject to health, food and beverage safety and environmental laws and regulations.

Our businesses are subject to a variety of national and local laws, rules and regulations that impose limitations, prohibitions and standards in the Philippines and in those jurisdictions outside the Philippines where we operate with respect to health, food and beverage safety, management of solid waste, water and air quality, as well as the use, discharge, emission, treatment, release, disposal and management of, regulated materials and hazardous substances. These laws and regulations require us to obtain and maintain several approvals, licenses and permits from various entities such as the Philippine Food and Drug Association ("**FDA**"), the Philippine Department of Trade and Industry ("**DTI**") and the Philippine Department of Environment and Natural Resources ("**DENR**"), among others, for our operations. Additionally, we may need to apply for more approvals, licenses and permits and renew such approvals, licenses and permits that may expire from time to time.

Health, food and beverage safety and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new health, food and beverage safety and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations. In addition, stringent and varied requirements of local regulators with respect to local licenses and permits could delay or prevent development of facilities and operations in certain locations. For further information, see "*Business—Quality Control, Health, Safety and Environmental Matters*" and "*Regulatory and Environmental Matters*."

There can be no assurance that future laws, regulations and/or standards will not have a material adverse effect on us. In particular, changes: (i) to health and food and beverage safety laws and regulations could increase costs and may also have a material adverse effect on sales if, as a result, the public attitude towards our products is affected; (ii) to health and safety laws and regulations could increase costs (including costs in relation to complying with such laws and regulations) and it may not always be possible for us to pass such costs on to our customers; and (iii) in laws and regulations relating to manufacturing and bottling requirements, packaging and labelling requirements, licensing requirements, ingredients, advertising restrictions and standards could adversely affect our cash flow, results of operations and financial position. In addition, there is no assurance that we will not be subject to new licensing requirements in the future, or that we would be able to obtain and maintain such approvals, licenses or permits in a timely manner, or at all, or that we will not become subject to any regulatory action on account of not having obtained or renewed such approvals, licenses and permits.

Furthermore, if the measures we implement to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose us to potential liabilities. Potential liabilities for such non-compliance with the legal requirements or violations of prescribed standards and limits under these laws include administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against us, as well as orders that could limit or affect our operations such as orders for the suspension and/or revocation of permits or licenses or suspension and/or closure of operations.

There can be no assurance that we will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Environmental compliance and remediation costs at sites on which our facilities are located and related litigation and other proceedings could materially and adversely affect our business, financial condition and results of operations.

We depend on key members of our management team and technical personnel.

We have relied and will continue to rely significantly on the continued individual and collective contributions of key members of our management team. The key members of our management team have been instrumental in setting our strategic direction, operating our businesses, identifying, recruiting and training personnel, identifying major expansion opportunities and arranging necessary financing. In addition, our key technical personnel are vital in the manufacture of our products. For example, the Beer and NAB Division has more than 40 brewmasters, a position critical to its manufacture of beer. Some members of our management are leaders or members of certain key industry associations in the Philippines, and we believe that we benefit from those relationships. We believe that these individuals cannot be easily replaced with executives of equal experience and capabilities. There can be no assurance that we will be able to retain these executives and technical personnel. If a significant number of the key members of our management team or technical personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing business, we may not be able to timely identify a suitable replacement, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our business operations could be disrupted if our information technology systems fail to perform adequately.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, affecting our business and results of operations to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-attacks and viruses. Any such damage or interruption could have a material adverse effect on our business.

Our current insurance coverage may not be adequate, insurance premiums for such coverage may increase and we may not be able to obtain insurance at acceptable rates or at all.

Our current insurance may not provide adequate levels of coverage and we may not be fully insured against, and insurance may not be available for, losses caused by accidents, natural disasters, disease outbreaks, breakdown of major facilities or other events that could affect the facilities and processes used by our businesses. For example, we do not carry business interruption insurance nor insurance for our live animals for any of our domestic businesses. Any losses caused by events against which we are not fully insured could result in a decline in production, adverse publicity, and significant expenditure of resources to address such losses, and would as a result, have a material adverse effect on our business, financial condition and results of operations. Any accident at our operations and facilities could result in significant losses. We could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses, both in terms of time and money. There is no assurance that there will be no work-related or other accidents in the future. Furthermore, there is no assurance that amicable settlements will be secured in the event of accidents or that accidents will not result in litigation or regulatory action against us. In addition, our insurance premiums in the future may increase and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Such events or any substantial inadequacy of, or inability to obtain insurance coverage could materially and adversely affect our financial condition and results of operations. See "*Business—Insurance*."

Disagreements that may develop among partners may result in disruptions to these businesses.

The businesses of some of our subsidiaries are conducted with other partners, including Kirin Holdings Company, Limited for beer, Hormel Netherlands B.V. for processed meats, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte Ltd., for coffee, PT Hero Intiputra for Indonesia processed meats business, and Thai Life Group of Companies for distilled spirits. Cooperation among the partners on business decisions is crucial to the sound operation and financial success of these subsidiaries. Although we believe that we maintain good relationships with our partners, there can be no assurance that these relationships will be sustained in the future or that problems will not develop. For example, our partners may be unable or unwilling to fulfill their obligations, take actions contrary to our policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these subsidiaries could be severely disrupted, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to generate sufficient cash flow, raise capital or obtain financing on acceptable terms, which could adversely affect the execution of future business activities.

Our future business activities are expected to be funded through a combination of internally-generated funds and external fund-raising activities, including debt and equity financing. Our continued access to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers, (ii) our compliance with existing debt covenants, (iii) our ability, together with our affiliates and subsidiaries, to service new debt, and (iv) perceptions in the capital markets regarding SMFB and the industries in which we operate and other factors, some of which may be outside of our control, including general conditions in the debt and equity capital markets, political instability, economic downturn, social unrest, changes in the Philippine regulatory environment or the bankruptcy of an unrelated company operating in one or more of the same industries as us, any of which, could increase our cost of borrowing or other financing or restrict our ability to obtain debt or equity financing. In addition, disruptions in global capital and credit markets may occur, continue indefinitely or intensify, and such disruptions could adversely affect our access to financing. There can be no assurance that we will be able to arrange our required financing on acceptable terms, if at all. Any inability to obtain financing from banks and other financial institutions or from capital markets would adversely affect our ability to execute our future business activities as well as our financial condition and prospects.

Certain products in our food businesses are subject to price monitoring by the Government.

Basic necessities such as bread, fresh pork, beef and poultry meats, fresh eggs, milk, coffee and cooking oil, and prime commodities such as flour, processed meats, other dairy products and swine and poultry feeds may be made subject to price monitoring by the Government. Under the Philippine Republic Act No. 7581 (the "**Price Act**"), as amended by Republic Act No. 10623, the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. In addition, the DTI issues a "Suggested Retail Price" list for certain prime commodities, which includes some of the Food Division's products. The DTI should be informed of any price movement in these products prior to implementing the same.

The Price Act imposes an automatic price control on the prices of basic commodities in areas declared as disaster areas, under emergency or martial law or in a state or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days, except for price control on basic necessities that are wholly imported and deregulated. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are also given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. Any resulting price control may have a material adverse effect on our business, financial condition and results of operations.

In addition, traditional wet markets remain a major distribution channels for food products in the Philippines. The Government may at times decide to protect consumers from rising prices and this may constrain our ability to pass on higher product costs through price increases to wet market retailers who sell our poultry, fresh meats and value-added meat products. For example, during times of calamities, the government may impose price control on basic commodities such as poultry in the affected areas.

We engage in derivative and hedging transactions.

From time to time, we enter into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. We endeavor to generally hedge up to 20% of our wheat and soybean meal requirements. As our hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under futures contracts, our net income will be lower than it would have been had we not engaged in such transactions. Consequently, our financial performance could be adversely affected during periods in which prices of raw materials are volatile.

We are party to a number of related party transactions which may result in potential conflicts of interest and the BIR may implement adjustments that may have an adverse effect on our business, financial conditions and operations.

In the ordinary course of our business, we have transactions with related parties. For example, we purchase from and sell products and materials to, and engage the services of, our subsidiaries and affiliates, lease properties from our affiliates, and enter into intercompany loans. Our related party transactions are described in greater detail under "*Related Party Transactions*" and the notes to our financial statements appearing elsewhere in this Prospectus. Such interdependence may mean that any material adverse changes in the operations or financial condition of related parties could adversely affect the results of our operations. We expect that we will continue to enter into transactions with related parties. These transactions may involve potential conflicts of interest which could be detrimental to us or our shareholders.

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses upon determination of the necessity to prevent evasion of taxes or to clearly reflect the income of any such business. In January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the "**Transfer Pricing Regulations**") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines in addressing Base Erosion and Profit Shifting (BEPS). The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR pursuant to the BIR Commissioner's authority to distribute, apportion or allocate gross income or deductions between or among two or more businesses owned or controlled directly or indirectly by the same interests (if such is necessary in order to clearly reflect the income of such business), may make the necessary transfer pricing adjustments to the taxable profits of the related parties to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions. While we believe that we enter into transactions with related parties on an arm's length basis and documented pursuant to the Transfer Pricing Regulations, there can be no assurance that the BIR will confirm these transactions as arm's length on the basis of the Transfer Pricing Regulations and there can be no assurance that any transfer pricing adjustments by the BIR will not have a material adverse effect on our business, financial condition or results of operations.

We are substantially dependent on our relationship with SMC and the San Miguel Group.

We remain dependent on our relationship with SMC and the San Miguel Group in a number of critical areas, including with respect to its brands and trademarks, packaging requirements, some of our brand marketing activities, many of our critical corporate functions including strategic planning, and the land on which certain of our production facilities are located. If conflicts were to arise in our relationship with SMC or the San Miguel Group or if SMC or the relevant member(s) of the San Miguel Group were to fail to provide the services or requirements they have contracted to provide to us, it is likely that we would not be able to easily replace SMC or the relevant member(s) of the San Miguel Group as a provider of such services or requirements. Any such development could cause a material disruption in our business, negatively impacting our performance and growth prospects

Our business and sales are affected by seasonality.

Our sales are affected by seasonality of customer purchase patterns. In the Philippines, food and alcoholic beverages, including those we produce, generally experience increased sales during the Christmas season. In addition, alcoholic beverages experience increased sales in the summer season, which typically slow down in the third quarter as a result of rainy weather. As a result, performance for any one quarter are not necessarily indicative of what is to be expected for any other quarter or for any year and our financial condition and results of operations may fluctuate significantly from quarter to quarter.

We may not be successful in implementing our expansion strategy, including plans to increase our sales volume, and expand our distribution network, and international operations.

We intend to increase our sales volume through, among others, the introduction of new products and entry into new categories to broaden our product offering, expansion of our distribution network, and possible acquisitions of or joint ventures with other food and beverage businesses in the Philippines and in other countries. Our expansion strategy will allow us to expand production and generate additional value for SMFB. Our expansion activities may be financed by a combination of additional borrowings and equity. The implementation of our expansion strategy may face uncertainties and risks and there can be no assurance that we will be successful in implementing these initiatives or the implementation of any growth plans would result in an increase in income. There is also no assurance that acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into our operations or may result in possible contingent liabilities or other financial or legal exposure which were not sufficiently quantified during the due diligence prior to the acquisition, joint venture or other investment. As a result, these may have a material adverse effect on our liquidity, financial condition or results of operations.

Our international and export operations are subject to macroeconomic, social, and political developments and conditions in the countries where we operate and export our products to.

We export our products and maintain international operations in certain countries outside of the Philippines, with plans for further international expansion. Expansion in international markets may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, and there is no guarantee that our existing business and export operations as well as expansion plans will be successful in those countries. Our business, financial condition, prospects and results of operations could be adversely affected if we are not successful in the international markets in which we operate or export our products to if these international markets are affected by changes in political, economic and other factors, over which we have no control.

The public ownership of SMFB is currently below 10% prior to the completion of this Offering.

As a result of the SMFB Consolidation, the minimum public ownership ("**MPO**") of SMFB is below 10% which is the minimum public ownership requirement of the PSE for listed companies. Under the rule on minimum public ownership of the PSE, a listed company which becomes non-compliant with the MPO requirement on or after January 1, 2013 shall be suspended from trading for a period of not more than six months and shall be delisted if it remains non-compliant after the suspension period.

The issuance of the new SMFB common shares in favor of SMC upon the approval by the Philippine SEC of the Company's increase in authorized capital stock as of June 29, 2018, resulted in SMFB's public ownership level to fall below the MPO. On July 6, 2018, the PSE suspended the trading of SMFB's common and preferred shares until SMFB secures a favorable ruling from the BIR on the appropriate taxes to be imposed on the trades of SMFB shares through the PSE during the period not exceeding six months. On July 20, 2018, SMFB received a BIR ruling confirming that the SMFB Consolidation and the follow-on offer of common shares and all trades of SMFB shares through the PSE during the period not exceeding six months are not subject to capital gains tax of 15% under Revenue Regulations (RR) No. 16-2012 as amended by RR No. 11-2018, and that the stock transaction tax at the rate of 6/10 of 1% shall be imposed on all trades through the PSE of SMFB Shares during the same period. The PSE lifted the trading suspension of SMFB shares on July 23, 2018. On July 27, 2018, the PSE granted the Company an exemption from the MPO requirement until December 31, 2018 to allow the Company to take remedial action to meet the MPO requirement.

In the event the Offer is not completed on time, Philippine regulatory authorities may take enforcement action, which could include an automatic trading suspension from the PSE and potential delisting from the PSE. Any delisting may cause the value of the Offer Shares to decline significantly.

The transfer of legal title to the SMB and GSMI common shares to SMFB is pending issuance of the Certificate Authorizing Registration to be issued by the BIR.

As part of the SMFB Consolidation, SMC transferred to SMFB 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI (the "**Exchange Shares**"), in exchange for 4,242,549,130 new SMFB common shares. See "*Business—Corporate Structure and SMFB Consolidation*." On April 13, 2018, SMC and SMFB filed with the BIR an application for confirmation that the SMFB Consolidation is a tax-free exchange under Section 40(C)(2) of the Tax Code (the "**BIR Application for Confirmation**") and an application for the issuance of a certificate authorizing registration ("**CAR**") for the transfer to SMFB of legal title to the Exchange Shares.

The CAR for the Exchange Shares is necessary to transfer legal title to the Exchange Shares from SMC to SMFB, and register the transfer of ownership of such Exchange Shares in the books of SMB and GSMI.

As of the date of this Prospectus, the CAR for the transfer of Exchange Shares to SMFB remains pending. Until the BIR issues the CAR, the legal title to the Exchange Shares shall remain with SMC. In the event the BIR issues an unfavorable ruling with respect to the BIR Application for Confirmation, the transfer by SMC of the Exchange Shares to SMFB shall remain binding and effective (and SMFB will continue to be the beneficial owner of the Exchange Shares); however, SMC shall be liable to pay capital gains tax (including applicable interest and penalties) on the transfer of the Exchange Shares.

We are currently involved in certain legal proceedings and may be involved in additional legal or regulatory proceedings and commercial or contractual disputes from time to time, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are currently involved in certain legal proceedings and may be involved in additional legal or regulatory proceedings and commercial or contractual disputes from time to time or in the ordinary course of our business. Any legal or regulatory proceedings and disputes or adverse adjudications in proceedings may have a material adverse effect on our business, financial condition, results or operations and prospects.

We are currently involved in a motion and petition filed by Josefina Multi-Ventures Corporation (the "**Petitioner**"). The motion, which was filed on September 3, 2018, is an Urgent Motion for the Issuance of Status Quo Order ("**Motion**") for the SEC to direct SMFB to cease and desist from (i) the issuance of dividends declared on August 8, 2018 to its common and preferred shareholders; and (ii) the implementation of the Offer ("**Cease and Desist Order**"). The petition, which was served by the Philippine SEC to SMC, SMFB and GSMI on September 10, 2018, prayed that the share swap transaction between SMFB and SMC and the approval of increase in the authorized capital stock of SMFB be declared null and void for violation of the rules on mandatory tender offer; or, in the alternative, asked the Philippine SEC to compel SMFB to conduct a mandatory tender offer to the remaining shareholders of GSMI. See "*Legal Proceedings—SEC Case*." The results of this proceeding cannot be predicted with certainty. While we believe that there is no basis for the Petition and the Motion, a Cease and Desist Order if issued by the SEC may enjoin SMFB from proceeding with the Offer. Moreover, the existence of the Petition and the negative publicity arising therefrom or any adverse adjudication, may materially and adversely affect our reputation and negatively affect investor sentiments.

Risks Relating to the Philippines

Our businesses, assets and sales are concentrated in the Philippines, and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on our business, financial condition, results of operations and prospects.

As our businesses, assets and sales are concentrated in the Philippines, historically, our results of operations, financial condition and prospects are subject, to a significant degree, to the general state of the Philippine economy and the overall levels of business activity in the Philippines, and we expect that this will continue to be the case in the future.

The Philippines has experienced periods of slow or negative growth, high inflation, significant depreciation of the Philippine peso, and the imposition of exchange controls. Starting January 2018, inflation rose to an over three-year high of 3.4% and rose steadily to 5.2% by June 2018 with the BSP projecting inflation to be at 4.6% on average in 2018. Inflation may breach the BSP's inflation target for 2018 due primarily to temporary supply-side factors. The Monetary Board assessed that the balance of risks to the inflation outlook continues to lean toward the upside, with price pressures emanating from possible adjustments in transport fares, utility rates, and wages. The upward adjustment in the BSP's inflation forecasts indicate that inflation pressures could become more broad-based in the near term, the Monetary Board raised interest rates by 25 basis points to 3.5%, effective June 21, 2018 and the BSP expects inflation to return within the target range in 2019.

We cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of Philippine consumers. Demand for many of our products is tied closely to domestic consumer purchasing power and disposable income levels. For example, unfavorable economic developments may induce consumers of our food and beverage products to purchase economy brands, and lower-priced competing products and substitutes, which may result in lower sales and profit margins. In addition, as the businesses expand their product and brand portfolios in higher-priced Premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of SMFB. In addition, given the increase in interest rates by the Monetary Board to temper buildup in inflation expectations, we may see a rise in our borrowing and financing cost.

The Philippine economy and businesses operating in the Philippines have been influenced, in varying degrees, by economic and market conditions in the global economy. Moreover, uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Philippine governmental policies will continue to be conducive to sustaining economic growth. Any downturn in the Philippine economy may negatively affect consumer sentiment and general business conditions in the Philippines which may lead to a reduction in demand for our products and materially reduce our revenues, profitability and cash flows.

The Philippine economy and business environment may be disrupted by political or social instability and may have a material adverse effect on our business.

The Philippines has from time to time experienced severe political and social instability, including acts of political violence. In the past decade, there has been political instability in the Philippines, including extrajudicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of current and past officials of the Philippine government are currently under investigation or have been indicted for graft, corruption, plunder, extortion, bribery, or usurpation of authority. For example, on May 11, 2018, the Supreme Court of the Philippines granted a *quo warranto* petition filed against Chief Justice Lourdes A. Sereno resulting in her removal as Chief Justice. On June 19, 2018, the Supreme Court affirmed its decision. On June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were high-ranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses. In addition, since the beginning of the term of President Rodrigo R. Duterte, more than 1,000 alleged drug dealers and users have been killed in police operations, and more than 1,300 drug dealers and drug users have been killed by supposed vigilantes. There is no guarantee that future events will not cause political instability in the Philippines. Such instability may disrupt the country and its economy and could materially and adversely affect our business, prospects, financial condition and results of operations.

There can be no assurance that the current administration will continue to implement social and economic policies that promote a favorable and stable macroeconomic and business environment. Policy instabilities or fundamental change of policy directions, including those with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and the loss of investor confidence in the Philippines. The President's unorthodox and radical methods may also raise risks of social and political unrest. Any potential instability could have an adverse effect on the Philippine economy, which may impact our business, prospects, financial condition and results of operations.

Acts of terrorism in the Philippines could destabilize the country and could have a material adverse effect on our business, prospects, financial condition and results of operations.

The Philippines has been subject to a number of terrorist attacks since 2000 and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2018, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts.

China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally, including spending in the foodservice industry. This, in turn, could materially and adversely affect our financial condition and results of operations, and our ability to implement our business strategy and expansion plans.

The occurrence of natural disasters or other catastrophes, severe weather conditions, may materially adversely affect the Philippine economy and disrupt our operations.

Our facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. In the past, these events have affected our operating results. For example, the Japanese government banned the entry of any Philippine poultry products after the Avian Influenza outbreak last August 2017 and as a result, the Protein segment's customers in Japan cancelled their orders. As of June 2018, the ban is still enforced. In April 2017, the Food Division suspended production in the flour mills located in Batangas for two days after a series of earthquakes hit the area to assess the extent of damage and structural integrity of the building. There is no assurance that our insurance coverage for these risks will adequately compensate us for all damages and economic losses resulting from natural catastrophes. Our business, financial condition and results of operations may be materially and adversely affected by any disruption of operations at our facilities or our suppliers' facilities, including due to any of the events mentioned above.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Company.

Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents in the Philippines, including SMFB. As of June 30, 2018, the Philippines' long-term foreign currency-denominated debt was rated BBB by Fitch, BBB by Standard & Poor's and Baa2 by Moody's. However, no assurance can be given that Fitch, Moody's, Standard & Poor's or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including us. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including SMFB, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Corporate governance, disclosure and financial reporting standards in the Philippines may differ from those in other countries.

There may be less publicly available information about Philippine public companies, including SMFB, than is regularly made available by public companies in other countries. In addition, although we comply with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. The Philippine SEC considers as best practice for public companies such as SMFB, to have at least three independent directors, or such number as to constitute one-third of the board whichever is higher. While SMFB has adopted the recommended best practices of the Philippine SEC and is in compliance with Philippine laws, rules and regulations, a greater number of independent directors may be required in other jurisdictions.

Investors may face difficulties enforcing judgments against us.

We are organized under the laws of the Republic or the Philippines and a substantial portion of our assets are located in the Philippines. It may be difficult for investors to enforce judgments obtained outside of the Philippines against us. In addition, all of our directors and officers are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law, and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

If foreign exchange controls were to be imposed in the Philippines, our ability to purchase raw materials or to meet our foreign currency payment obligations could be severely constrained.

The Philippines currently does not have any foreign exchange controls in effect and Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange, (ii) require licensing of foreign exchange transactions, or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Philippine peso into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

We purchase certain key inputs from abroad and require foreign currency to make these purchases. There can be no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail our ability to obtain raw materials from abroad or to meet our foreign currency payment obligations, which could materially and adversely affect our financial condition and results of operations.

Risks Relating to the Offer and the Offer Shares

The market price of the Shares may be volatile, which may result in the decline in the value of investments of the investors.

The market price of Shares could be affected by several factors, including: (i) general market, political and economic conditions; (ii) changes in earnings estimates and recommendations by financial analysts; (iii) changes in market valuations of listed stocks in general and other retail stocks in particular; (iv) the market value of our assets; (v) changes to Government policy, legislation or regulations; and (vi) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Shares.

In part as a result of the global economic downturn, the global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Shares.

Investors may incur immediate and substantial dilution as a result of purchasing Shares in the Offer.

The issue price of the Shares in the Offer may be substantially higher than the net tangible book value of net assets per share of the outstanding Shares. Therefore, purchasers of Shares in the Offer may experience immediate and substantial dilution and our existing shareholders may experience a material increase in the net tangible book value of net assets per share of the Shares they own. We may issue additional Shares in the future. In the event that it we do, purchasers of the Offer Shares may experience further dilution.

We may decide not to pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends on our common stock.

Prior to the consolidation, SMB, GSMI and San Miguel Pure Foods Company Inc., ("**SMPFC**") have been declaring and paying dividends to its shareholders. After the completion of this Offer, we intend to pay a regular cash dividend of up to 60% of prior year's recurring net income, subject to the discretion of our Board of Directors and our compliance with applicable law, and depending on, among other things, our results of operations, financial condition, level of indebtedness, capital requirements, legal, regulatory, and contractual restrictions, loan obligations, ability to receive dividends and other distributions and payments from the subsidiaries of the Company, foreign exchange rates, and other factors the Board may deem relevant. For more information, see "*Dividends and Dividend Policy*." We may decide not to pay a dividend in the future or discontinue paying any dividend if we do commence paying dividends.

Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.

SMFB is governed by its articles of incorporation and by-laws, and the Philippine Corporation Code. The laws of the Philippines relating to the protection of interests of minority shareholders differ in some respects from those established under the laws of more developed countries. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of more developed countries. The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries such as the U.S. or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries.

The Philippine Corporation Code, however, provides for minimum minority shareholders protection in certain instances wherein a vote by the shareholders representing at least two-thirds of the company's outstanding capital stock is required. The Philippine Corporation Code also grants shareholders an appraisal right allowing a dissenting shareholder to require the corporation to purchase his shares in certain instances. See "*Description of the Shares*." While a derivative suit is a remedy available to stockholders under Philippine laws and governed by the Interim Rules of Procedure Governing Intra-Corporate Controversies (A.M. No. 01-2-04-SC), this remedy is rarely sought for Philippine companies. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

The Offer Shares may not be a suitable investment for all investors.

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of SMFB and our businesses, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency; (iv) understand and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Shares may be subject to Philippine foreign ownership limitations

The Philippine Constitution and related statutes restrict land ownership to Philippine Nationals. The term "Philippine National" as defined under the FIA, means a citizen of the Philippines, or a domestic partnership or association wholly-owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals. See "*Philippine Foreign Ownership and Foreign Exchange Controls*."

As of July 31, 2018, the current foreign ownership in SMFB is 1.26% of the total outstanding voting (common) shares and 1.25% of the total outstanding shares. We are subject to foreign ownership limits as we own land in the Philippines for our operations. For so long as we continue to own land in the Philippines, foreign ownership in our capital stock is limited to a maximum of 40% of our issued and outstanding capital stock entitled to vote and to (ii) a maximum of 40% of the total number of issued and outstanding capital stock, whether or not entitled to vote. We cannot allow the issuance or the transfer of shares to persons other than Philippine Nationals and cannot record transfers in our books if such issuance or transfer would result in us ceasing to be a Philippine National for purposes of complying with the restrictions on foreign land ownership discussed above. These restrictions may adversely affect the liquidity and market price of the Shares to the extent foreign investors are not permitted to purchase Shares or shareholders are not able to transfer Shares to foreign investors.

Investors with a reference currency other than Philippine peso will become subject to certain foreign exchange risks when investing in the Shares.

Our equity capital is denominated in Philippine peso and all dividends on the Shares will be paid in Philippine peso. Fluctuations in the exchange rate between the Philippine peso and other currencies will affect the foreign currency equivalent of the Philippine peso price of our Shares on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Philippine pesos by us on, and the Philippine peso proceeds received from any sales of, the Offer Shares. In addition, investors could incur additional transaction costs in converting Philippine peso into another currency. Investors whose reference currency is a currency other than the Philippine peso are therefore urged to consult their financial advisers.

The market price of the Shares may be affected if additional shares are sold by a significant shareholder or are issued by SMFB.

The Selling Shareholder is a significant shareholder of SMFB. Following this Offer, and assuming no exercise of the Over-Allotment Option, the Selling Shareholder will hold approximately 89.09% of the voting rights of the Shares. The Selling Shareholder has agreed that it will not sell, contract to sell, pledge or otherwise dispose of any of its shares in SMFB for a period of 180 days from the Settlement Date, except that the Selling Shareholder may dispose of any Shares in order to comply with the applicable MPO threshold. See "*Plan of Distribution—Lock Up*". After this date, there is no assurance that the Selling Shareholder will not dispose of additional Shares or that we will not issue additional shares in the future. In addition, we cannot predict the effect, if any, that any future sales of shares by the Selling Shareholder, or the availability of shares for sale by the Selling Shareholder or the issuance of Shares by SMFB, may have on the market price of the Shares. Sales by the Selling Shareholder or issuance of substantial quantities of additional shares, or the market perception that such sales or issuances may occur, could have a material adverse effect on the prevailing market price of the Shares. To the extent further new Shares are issued, there may be dilution to existing holders of our Shares.

Repatriation of dividends denominated in currencies other than Pesos may be subject to certain restrictions.

Under BSP regulations, Philippine residents may, in general, freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange within the Philippine banking system. In particular, a foreign investment must be registered with the BSP if foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon shall be sourced from the Philippine banking system. Cash dividends of SMFB will be paid in Philippine pesos.

The price of the Shares could fall between the time of pricing and the Settlement Date or such later time when the voluntary trading halt on the Shares has been lifted and stabilization activities, if any, have ended.

As part of the Offer, the Company may file an application with the PSE for the voluntary suspension of trading in the Shares on the PSE from October 25, 2018 to November 12, 2018, and we have appointed the Stabilizing Agent to engage in activities to stabilize the price of the Shares. Such trading suspension and stabilizing activities may cause the price of the Shares to be higher than the price that would otherwise exist in the absence of such trading suspension and stabilizing activities. There is no assurance that the price of the Shares will not decline significantly after any such trading suspension is lifted and stabilizing activities end. Furthermore, since the closing of the Offer is not expected to take place until at least 10 trading days in the Philippines following pricing of the Offer Shares, investors are also subject to the risk that the price of the Shares traded on the PSE could fall between the time of pricing and the Settlement Date.

The Offer Shares are subject to restrictions on transfer.

The Offer Shares have not been registered under, and we are not obligated to register the Offer Shares under the U.S. Securities Act or the securities laws of any jurisdiction (other than in the Philippines) and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. See "*Plan of Distribution*". We have not agreed to or otherwise undertaken to register the Offer Shares under the U.S. Securities Act or under the securities laws of any jurisdiction (other than in the Philippines), and we have no intention of doing so.

If foreign exchange controls were to be imposed, access to foreign currency and dividends may be adversely affected.

The Philippine government has, in the past, instituted restrictions on the conversion of Philippine peso into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange, (ii) require licensing of foreign exchange transactions, or (iii) require delivery of foreign exchange to the BSP or its designee. We are not aware of any pending proposals by the Philippine government regarding such restrictions. Although the Philippine government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there is no assurance that the Philippine government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Offer Shares or receipt of any dividends.

Shareholders may experience liquidity problems with respect to the Shares.

The securities market in the Philippines is smaller and less liquid than the securities markets in the U.S. and certain other countries. The total market capitalization of all companies listed on the PSE at the end of 2017 was approximately ₱17,583 billion. There is no assurance regarding the liquidity of the market of Philippine securities in general. Liquidity fluctuations may arise as a result of temporary exchange closures, broker defaults, settlement delays and broker strikes. Accordingly, there is no assurance that a shareholder will be able to dispose of the Offer Shares, or direct the sale of such Offer Shares through the PSE, at prices or at times at which such shareholder may have been able to do so in other, more liquid, markets, or at all.

Overseas shareholders may not be able to participate in our future rights offerings or certain other equity issues.

If we offer or cause to be offered to holders of the Offer Shares rights to subscribe for Shares or any right of any other nature, we will have discretion as to the procedure to follow in making such rights available to holders of the Offer Shares or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders.

For example, such rights may not be offered to holders of the Shares who are U.S. persons (as defined in Regulation S) or have a registered address in the U.S. unless: (i) a registration statement is in effect, if a registration statement under the U.S. Securities Act is required in order for us to offer such rights to holders and sell the securities represented by such rights; or (ii) the offer and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the U.S. Securities Act.

We have no obligation to prepare or file any registration statement. Accordingly, shareholders who are subject to similar restrictions may be unable to participate in rights offerings and may experience a dilution in their holdings as a result.

Certain information contained herein is derived from unofficial publications.

Certain information in this Prospectus relating to the Philippines, the industries in which we compete and the markets in which we operate, including statistics relating to market size, were obtained or derived from various government and private publications, internal surveys, market research, publicly available information and/or industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate or complete. Similarly, we have not independently verified such internal surveys, industry forecasts and market research and these may not be accurate, complete, up-to-date, balanced or consistent with other information compiled within or outside the Philippines.

Developments in other markets may adversely affect the Philippine economy and the market price of the Shares.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Shares.

USE OF PROCEEDS

The Selling Shareholder will receive all of the proceeds from the sale of the Offer Shares in this Offer. We will not receive any proceeds from this Offer. Taxes and issue management, underwriting and selling fees and certain other fees and expenses pertaining to the Offer will be paid by the Selling Shareholder.

Assuming full exercise of the Over-allotment Option, SMC expects to raise ₱39,191.9 million as gross proceeds from the Offer. SMC estimates that the net proceeds from the Offer after deducting expenses payable by the Company, will be approximately ₱38,368.2 million, estimated as follows:

Particulars	Total (₱) (in millions)
Estimated proceeds from the Offer of Firm Shares	**34,079.9**
Less: Estimated fees, commissions and expenses	**743.1**
Gross Underwriting Fees	**340.8**
Stock Transaction Taxes to be paid by SMC	**196.6**
Legal and other professional fees	**160.3**
Roadshow and Marketing Expenses	**21.0**
Other expenses	**24.4**
Estimated net proceeds (excluding the Over-allotment Option)	**₱33,336.8**

Assuming full exercise of the Over-allotment Option, SMC estimates that the net proceeds from the full exercise of the Over-allotment Option shall amount to approximately ₱5,031.4 million, after deducting the following fees, commissions and expenses:

Particulars	Total (₱) (in millions)
Estimated proceeds from the Over-allotment option	**5,112.0**
Less: Estimated fees, commissions and expenses	**80.6**
Gross Underwriting Fees	**51.1**
Stock Transaction Taxes to be paid by SMC	**29.5**
Estimated net proceeds	**₱5,031.4**

The entire proceeds from this Offer will be used by SMC for investments in the San Miguel Group.

The board of directors of SMC authorized its management to make any such additional investments, at such time and in such amount as management may deem appropriate, taking into consideration the capital requirements of such investment, including funding requirements of the relevant projects, and opportunities and developments in the relevant industries.

Pending the above use of proceeds, SMC shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from SMC's internally generated funds.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on SMC's current plans and anticipated expenditures. In the event there is any change in SMC's development plan, including force majeure, market conditions and other circumstances, SMC will carefully evaluate the situation and may reallocate the proceeds for future investments or other uses, and/or hold such funds in investments, whichever is better for SMC and its shareholders' interest taken as a whole. SMC's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and SMC's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, SMC shall inform the Philippine SEC and its stockholders in writing at least 30 days before such deviation, adjustment or reallocation is implemented.

DIVIDENDS AND DIVIDEND POLICY

Limitations and Requirements

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC.

The approval of our Board of Directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing not less than two-thirds of the outstanding capital stock at a regular or special meeting duly called for the purpose. From time to time, we may reallocate capital among our subsidiaries depending on its business requirements.

Unless otherwise required by law and subject to SMFB's disclosure obligations under PSE regulations, our Board of Directors, at its sole discretion, shall determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

- our earnings, cash flow, return on equity and retained earnings;
- our results for and financial condition at the end of the year in respect of which the dividend is to be paid and our expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends under financing arrangements and current or prospective debt service requirements; and
- other factors the Board deems appropriate.

The Philippine Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by our Board of Directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

Under Philippine laws, we may declare cash, property and stock dividends, subject to certain requirements. See "*Description of the Shares—Rights Relating to Shares—Dividend Rights*."

Pursuant to existing Philippine SEC rules, cash dividends declared by corporations whose securities are registered or whose shares are listed in the stock exchange must have a record date not less than 10 days nor more than 30 days from the date of declaration. For stock dividends, the record date should not be less than 10 days nor more than 30 days from the date of the shareholders' approval, provided however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC. In case no record date is specified for the cash and stock dividend declaration, then the same shall be deemed fixed at 15 days from such declaration.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP. See "*Philippine Foreign Ownership and Foreign Exchange Controls*."

Pursuant to the "Amended Rules Governing Pre-emptive and other Subscription Rights and Declaration of Stock and Cash Dividends" of the Philippine SEC, all cash dividends and stock dividends declared by a company shall be remitted to PDTC for immediate distribution to participants not later than 18 trading days after the record date (the "**Payment Date**"); provided that in the case of stock dividends, the credit of the stock dividend shall be on the Payment Date which in no case shall be later than the stock dividends' listing date. If the stock dividend shall come from an increase in capital stock, all stock shall be credited to PDTC for immediate distribution to its participants not later than 20 trading days from the record date set by the Philippine SEC, which in no case shall be later than the stock dividends' listing date.

Dividend History

Set out below is our dividend history in the last three years for each of our classes of shares.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016	Cash	1.20	2 February 2016	18 February 2016	1 March 2016
2016	Cash	1.50	6 May 2016	23 May 2016	3 June 2016
2016	Cash	1.50	8 August 2016	23 August 2016	6 September 2016
2016	Cash	1.50	8 November 2016	23 November 2016	7 December 2016
2017	Cash	1.50	2 February 2017	17 February 2017	1 March 2017
2017	Cash	1.50	9 May 2017	24 May 2017	8 June 2017
2017	Cash	1.50	9 August 2017	24 August 2017	7 September 2017
2017	Cash	1.50	9 November 2017	28 November 2017	8 December 2017
2018	Cash	2.00	1 February 2018	19 February 2018	1 March 2018
2018	Cash	0.20	9 May 2018	24 May 2018	8 June 2018
2018	Cash	0.40	8 August 2018	23 August 2018	6 September 2018
2018	Cash	0.40	8 October 2018	22 October 2018	31 October 2018

* *On March 23, 2018, the Philippine SEC approved an amendment to our articles of incorporation involving a stock split, reducing the par value of our common shares from ₱10.00 per common share to ₱1.00 per common share. See "Business – Corporate Structure and SMFB Consolidation."*

Series 2 Preferred Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016	Cash	14.14225	2 February 2016	18 February 2016	12 March 2016
2016	Cash	14.14225	6 May 2016	23 May 2016	12 June 2016
2016	Cash	14.14225	8 August 2016	23 August 2016	12 September 2016
2016	Cash	14.14225	8 November 2016	23 November 2016	12 December 2016
2017	Cash	14.14225	2 February 2017	17 February 2017	13 March 2017
2017	Cash	14.14225	9 May 2017	24 May 2017	13 June 2017
2017	Cash	14.14225	9 August 2017	24 August 2017	12 September 2017
2017	Cash	14.14225	9 November 2017	28 November 2017	12 December 2017
2018	Cash	14.14225	1 February 2018	19 February 2018	12 March 2018
2018	Cash	14.14225	9 May 2018	24 May 2018	13 June 2018
2018	Cash	14.14225	8 August 2018	23 August 2018	12 September 2018

Dividend Policy

Since August 8, 2018, SMFB's dividend policy has been to entitle holders of its common shares to receive annual cash dividends of up to 60% of the prior year's recurring net income. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. We expect that the dividend distributions shall be made over the four quarters of the year, subject to the applicable laws and regulations and based on the recommendation of the Board of Directors. In considering dividend declarations for each quarter, the Board has in the past and will in the future, take into consideration dividend payments on the preferred shares, and other factors, such as the implementation of business plans, debt service requirements, debt covenant restrictions, funding of new investments, major capital expenditure requirements, appropriate reserves and working capital, among others.

Holders of the Series 2 Preferred Shares are entitled to dividends at the fixed rate of 5.6569% calculated by reference to the Offer Price of ₱1,000.00 per share rate determined by the Board of Directors, payable once for every dividend period on such date set by the Board at the time of declaration of dividends in accordance with the terms of the Series 2 Preferred Shares. Dividends on the Series 2 Preferred Shares are cumulative. In addition, SMFB may not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking junior to the Series 2 Preferred Shares (including the Shares) or contribute any moneys to a sinking fund for the redemption of any securities ranking junior to the Series 2 Preferred Shares (including the Shares) if: (a) any dividends due with respect to any of the Series 2 Preferred Shares then outstanding for any period are not declared and paid in full when due or (b) any other amounts payable under the Series 2 Preferred Shares are not paid in full when due for any reason.

The Board of Directors may modify our dividend policy or declare special dividends, depending upon our capital expenditure plans and/or any terms of financing facilities entered into to fund our current and future operations and projects. SMFB's ability to pay dividends primarily depends on the dividends it receives from subsidiaries, and we intend to maintain the dividend policies of our subsidiaries. We cannot assure you that we will pay any dividends in the future.

The following are the dividend policies of its subsidiaries as provided in their respective by-laws or as approved by their respective board of directors:

San Miguel Brewery Inc.

The cash dividend policy of SMB entitles the holders of its common shares to receive annual cash dividends equivalent to 100% of the prior year's recurring net income, which is net income calculated without respect to extraordinary events that are not expected to recur, based on the recommendation of the board of directors. Such recommendation will take into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others, and subject to the applicable provisions of the Philippine Corporation Code.

As of the date of this Prospectus, the articles of incorporation of SMB does not provide for preferred shares.

The cash dividend policy is subject to review and may be changed by SMB's board of directors at any time.

Ginebra San Miguel Inc.

Subject to the relevant provisions of applicable laws and regulations, holders of common shares shall be entitled to receive annual cash dividends at such amounts up to 50% of the prior year's recurring net income starting 2019, as may be determined by the board. "Recurring net income" shall mean net income calculated without respect to extraordinary events that are not expected to recur. Any dividend declaration and distribution may be made over the four quarters of the year.

In considering dividend declarations, the board shall, in the exercise of its discretion and authority, take into consideration dividend payments on the preferred shares, debt covenant and restrictions, debt servicing requirements, implementation of business plans, operating expenses, budgets, appropriate reserves and working capital, major capital expenditure requirements, and funding of new investments.

This policy may be amended or modified by GSMI's board of directors at any time.

Holders of the preferred shares are entitled to receive, to the fullest extent allowable under the law, dividends at the rate of ₱1.50 per annum, per preferred share, subject to certain adjustments. It shall be paid in priority to any dividend or distribution in favor of holders of common shares. Dividends on the preferred shares shall be fully cumulative.

San Miguel Foods, Inc.

The board of directors of San Miguel Foods has discretion to declare out of the surplus profits dividends to the outstanding subscribed capital stock in such amounts and upon such dates as the board may prescribe, subject to the provisions of law.

The Purefoods-Hormel Company, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings of the corporation which shall be payable in cash, property, or stock, to all stockholders on the basis of outstanding stock held by them, as often and at such times as the board of directors of Purefoods-Hormel may determine, in accordance with law. The stockholders are empowered to take necessary or appropriate action to ensure that excess retained earnings of the corporation for the previous year are distributed as dividends, after replenishing prior capital deficits and establishing reserves as may be required by its operations, approved expansion spending, applicable laws, loan covenants, and internal debt-to-equity ratio limit.

San Miguel Mills, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the board of directors may determine and in accordance with law.

Magnolia, Inc.

Dividends shall be declared only from the unrestricted retained earnings of the corporation and shall be payable at such times, manner, and amount determined by the board of directors. Dividends shall not be declared if it will impair the capital of the corporation.

EXCHANGE RATES

The Bankers' Association of the Philippines ("**BAP**") announced that beginning April 2, 2018, spot and forward currency exchange transactions carried out by BAP member banks will be effected using the Bloomberg trading platform. As a result, the BSP's Reference Exchange Rate Bulletin now refers to the closing rate quoted on the Bloomberg platform as the closing rate for the purchase of U.S. dollars with Pesos. Prior to this, the PDS rate appearing on the PDS platform, a computer network supervised by the BSP, was quoted as the spot reference rate for foreign exchange transactions of BAP member banks.

The following table sets forth certain information concerning the exchange rate (based on the PDS rate for the years 2013 to 2017 and based on the rate on the BAP's website for the periods indicated in 2018, after the publication of the PDS USD/PHP FX Spot Summary ceased on April 1, 2018) between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per US$1.00:

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average**(1)	**High**(2)	**Low**(3)
2013	44.41	42.42	44.66	40.57
2014	44.62	44.39	45.41	43.28
2015	47.17	45.49	47.44	44.05
2016	49.81	47.47	49.98	45.92
2017	49.92	50.40	51.80	49.40
2018				
May	52.52	52.24	52.70	51.67
June	53.34	53.12	53.52	52.39
July	53.10	53.41	53.53	53.10
August	53.48	53.26	53.48	52.85
September	54.02	53.96	54.33	53.46

Notes:

(1) BAP volume weighted average for the period ended.

(2) BAP (done) Highest daily closing exchange rate for the period.

(3) BAP (done) Lowest daily closing exchange rate for the period.

On June 29, 2018 (the last date in June 2018 that the exchange rate was published), the BSP Reference Rate published on the BSP's Reference Exchange Rate Bulletin was US$1.00=₱53.50. On October 15, 2018, the BSP Reference Rate was US$1.00=₱54.15.

DETERMINATION OF THE OFFER PRICE

The Offer Price has been set at ₱85.00 per Offer Share. The Offer Price was determined through a book-building process and discussions among the Company, the Selling Shareholder and the Joint Global Coordinators, the Joint Bookrunners, and the Local Lead Underwriters.

The factors considered in determining the Offer Price were, among others, our ability to generate earnings and cash flow, our short and long term prospects, the level of demand from institutional investors, overall market conditions at the time of launch of the Offer and the market price of comparable listed companies. The Offer Price may not have any correlation to the actual book value of the Offer Shares.

CAPITALIZATION

The following table sets out our consolidated cash and cash equivalents, borrowings, equity and capitalization as of June 30, 2018. The table should be read in conjunction with our unaudited condensed consolidated interim financial statements included in this Prospectus beginning on page F-1. There has been no material change in our capitalization since June 30, 2018.

	As of June 30, 2018	
	₱	**US$[1]**
	(in millions)	
Cash and cash equivalents	**₱35,448**	**US$663**
Total borrowings [2]	47,371	885
Equity:		
Equity attributable to equity holders of the Parent Company	83,541	1,562
Non-controlling interests	39,396	736
Total equity	122,937	2,298
Total capitalization	**₱170,308**	**US$3,183**

Notes:

(1) Translations from Pesos to U.S. dollars have been made at the BSP Reference Rate of US$1.00=₱53.50, the reference rate quoted by the BSP on June 29, 2018 (the last date in June 2018 that such rate was published).

(2) Total borrowings is comprised of notes payable and long-term debt (including current maturities and net of debt issue costs).

SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables present selected financial information and should be read in conjunction with the independent auditors' reports and our financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected financial information as of and for the years ended December 31, 2015, 2016 and 2017 were derived from our audited combined financial statements which were prepared in accordance with PFRS and were audited by R.G. Manabat & Co. in accordance with the PSA. The selected financial information as of June 30, 2018 and for the six months ended June 30, 2017 and 2018 were derived from our unaudited condensed consolidated interim financial statements, which were prepared in accordance with PAS 34. The selected historical financial information below is not necessarily indicative of the results of future operations. Furthermore, the translation of Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Pesos were converted to U.S. dollars using the BSP Reference Rate as of June 29, 2018 (the last date in June 2018 that such rate was published) of US$1.00=₱53.50.

As a result of the acquisition of SMB and GSMI common shares by SMFB, the unaudited condensed consolidated interim financial statements of the Company as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2017 and 2018 have been restated to take into consideration the acquisition of SMB and GSMI common shares by SMFB which is considered to be a business combination of entities under common control.

Selected Statements of Income Information

	For the years ended December 31,				For the six-month period ended June 30,		
	2015	2016	2017	2017	2017 (As restated)	2018	2018
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	₱205,396	₱227,279	₱251,589	US$4,703	₱119,130	₱137,441	US$2,569
Cost of sales	140,697	152,108	168,460	3,149	80,152	92,608	1,731
Gross profit	64,699	75,171	83,129	1,554	38,978	44,833	838
Selling and administrative expenses	(33,847)	(38,128)	(40,728)	(761)	(19,923)	(21, 944)	(410)
Interest expense and other financing charges	(3,472)	(3,212)	(2,658)	(50)	(1,372)	(1,314)	(25)
Interest income	472	511	669	12	317	544	10
Equity in net losses of joint ventures	(110)	(97)	(186)	(3)	(41)	(55)	(1)
Gain on sale of investments and property and equipment	233	149	—	—	12	3	—
Other income (charges) —net	(1,582)	(295)	(365)	(7)	42	(203)	(4)
Income before income tax	26,393	34,099	39,861	745	18,013	21,864	408
Income tax expense	8,539	10,097	11,635	217	5,208	6,494	121
Net income	₱17,854	₱24,002	₱28,226	US$528	₱12,805	₱15,370	US$287
Attributable to:							
Equity holders[(1)]	17,334	23,267	27,356	512	7,929	9,260	173
Non-controlling interests[(2)]	520	735	870	16	4,876	6,110	114
	₱17,854	**₱24,002**	**₱28,226**	**US$528**	**₱12,805**	**₱15,370**	**US$287**

Notes:

(1) *For the years ended December 31, 2015, 2016, and 2017, pertains to the net income attributable to equity holders of the combined entities. For the six-month period ended June 30, 2017 and 2018, pertains to the net income attributable to equity holders of SMFB or the Parent Company.*

(2) *For the years ended December 31, 2015, 2016, and 2017, pertains to the net income attributable to non-controlling interests of the combined entities. For the six-month period ended June 30, 2017 and 2018, pertains to the net income attributable to non-controlling interests of SMFB or the Parent Company.*

Selected Statements of Financial Position Information

	As of December 31,				As of December 31,		As of June 30,
	2015	2016	2017	2017	2017 (as restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Current assets:							
Cash and cash equivalents	₱25,580	₱30,332	₱35,540	US$664	₱35,540	₱35,448	US$663
Trade and other receivables - net	18,128	18,728	18,237	341	18,237	15,508	290
Inventories	21,853	25,296	28,358	530	28,358	30,932	578
Current portion of biological assets —net	3,319	3,122	3,422	64	3,422	3,822	71
Prepaid expenses and other current assets	4,935	4,283	4,872	91	4,872	5,116	96
Total current assets	73,815	81,761	90,429	1,690	90,429	90,826	1,698
Noncurrent assets:							
Investments	596	518	399	7	399	397	7
Property, plant and equipment – net	36,738	41,583	51,125	956	51,125	55,284	1,033
Investment property – net	2,176	2,480	2,100	39	2,100	2,120	40
Biological assets – net of current portion	2,177	2,263	2,695	50	2,695	2,760	52
Goodwill – net	304	304	304	6	996	996	19
Other intangible assets – net	40,109	40,193	40,786	762	40,786	41,021	767
Deferred tax assets	3,256	3,134	2,791	52	2,791	2,692	50
Other noncurrent assets – net	10,519	11,459	13,782	259	13,782	15,944	297
Total noncurrent assets	95,875	101,934	113,982	2,131	114,674	121,214	2,265
Total assets	₱169,690	₱183,695	₱204,411	US$3,821	₱205,103	₱212,040	US$3,963
Current liabilities:							
Notes payable	₱11,982	₱13,124	₱13,939	US$261	₱13,939	₱12,625	US$236
Trade payables and other current liabilities	25,380	26,858	33,609	628	33,609	33,828	632
Income and other taxes payable	4,748	5,088	5,734	107	5,734	5,618	105
Dividends payable	23	26	30	1	30	33	1
Current maturities of long-term debt – net of debt issue costs	179	3,113	114	2	114	12,850	240
Total current liabilities	42,312	48,209	53,426	999	53,426	64,954	1,214
Noncurrent liabilities							
Long-term debt – net of current maturities and debt issue costs	37,795	34,733	34,665	648	34,665	21,896	409
Deferred tax liabilities	140	140	53	1	53	52	1
Other noncurrent liabilities	4,363	2,261	2,338	43	2,338	2,201	41
Total noncurrent liabilities	42,298	37,134	37,056	692	37,056	24,149	451
Total liabilities	84,610	85,343	90,482	1,691	90,482	89,103	1,665
Equity							
Equity holders[(1)]	80,714	93,423	108,403	2,026	78,682	83,541	1,562
Non-controlling interests[(2)]	4,366	4,929	5,526	103	35,939	39,396	736
Total equity	85,080	98,352	113,929	2,130	114,621	122,937	2,298
Total liabilities and equity	₱169,690	₱183,695	₱204,411	US$3,821	₱205,103	₱212,040	US$3,963

Notes:

(1) As of December 31, 2015, 2016, and 2017, pertains to the equity attributable to equity holders of the combined entities. As of June 30, 2018 and December 31, 2017, pertains to the equity attributable to equity holders of SMFB or the Parent Company.

(2) As of December 31, 2015, 2016, and 2017, pertains to the equity attributable to non-controlling interests of the combined entities. As of June 30, 2018 and December 31, 2017 (as restated), pertains to the equity attributable to non-controlling interests of SMFB or the Parent Company.

Selected Statements of Cash Flows Information

	For the years ended December 31,				For the six-month period ended June 30,		
	2015	2016	2017		2017 (As restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)	(in millions of ₱)	(in millions of US$)
Net cash flows provided by operating activities	₱31,798	₱29,296	₱40,898	US$764	₱21,589	₱19,096	US$357
Net cash flows used in investing activities	(8,383)	(13,483)	(20,410)	(381)	(8,274)	(10,128)	(189)
Net cash flows used in financing activities	(22,721)	(11,343)	(15,307)	(286)	(11,579)	(9,642)	(180)
Effect of exchange rate changes on cash and cash equivalents	204	282	27	-	99	582	11
Net increase (decrease) in cash and cash equivalents	898	4,752	5,208	97	1,835	(92)	(1)
Cash and cash equivalents at beginning of year/period	24,682	25,580	30,332	567	30,332	35,540	664
Cash and cash equivalents at end of year/period	₱25,580	₱30,332	₱35,540	US$664	₱32,167	₱35,448	US$663

Adjusted EBITDA Reconciliation

	For the years ended December 31,				For the six months ended June 30,		
	2015	2016	2017		2017 (As restated)	2018	
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net income	₱17,854	₱24,002	₱28,226	US$528	₱12,805	₱15,370	US$287
Add:							
Income tax expense	8,539	10,097	11,635	217	5,208	6,494	121
Interest expense and other financing and bank charges	3,474	3,210	2,658	50	1,372	1,316	25
Depreciation and amortization and impairment losses	8,008	8,037	8,149	152	3,544	3,892	73
Less:							
Interest income	472	511	669	13	317	544	10
Foreign exchange gains (losses)	(83)	40	62	1	29	(41)	(1)
Adjusted EBITDA	**₱37,486**	**₱44,795**	**₱49,937**	**US$933**	**₱22,583**	**₱26,569**	**US$497**
Attributable to:							
Beer and NAB	₱25,685	₱31,345	₱34,932	US$653	₱15,717	₱18,975	US$355
Spirits	1,282	1,514	1,830	34	853	1,185	22
Food	10,519	11,936	13,175	246	6,013	6,409	120
Adjusted EBITDA	**₱37,486**	**₱44,795**	**₱49,937**	**US$933**	**₱22,583**	**₱26,569**	**US$497**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Prospective investors should read this discussion and analysis of our financial condition and results of operations in conjunction with the sections entitled "Summary Historical Financial and Operating Information" and "Selected Historical Financial and Operating Information" and with the audited combined financial statements as of and for the years ended December 31, 2017, 2016 and 2015 (the "**Audited Combined Financial Statements**") and the unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2018 and 2017 (the "**June 30, 2018 Unaudited Consolidated Interim Financial Statements**") in each case, including the notes relating thereto, included elsewhere in this Prospectus.*

Our Audited Combined Financial Statements and the June 30, 2018 Unaudited Consolidated Interim Financial Statements included in this Prospectus were prepared in compliance with PFRS.

This discussion contains forward-looking statements and reflects our current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus. See "Forward-Looking Statements" on page vii of this Prospectus.

Overview

San Miguel Food and Beverage, Inc. ("**SMFB**") is a leading food and beverage company in the Philippines. The brands under which we produce, market and sell our products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy,* for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds. We believe that 87% of SMFB's revenue in 2017 was generated from seven categories where the Company holds the No. 1 position for beverages and food. For the year ended 2017, most of our brands held market-leading positions with our beer brands having an aggregate market share of 92.7% according to GlobalData.

We have three primary operating divisions—(i) beer and non-alcoholic beverages ("**NAB**"), (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise our beverage business (the "**Beverage business**"). We operate our Beverage business through San Miguel Brewery Inc. and its subsidiaries ("**SMB**" or the "**Beer and NAB Division**") and Ginebra San Miguel Inc. and its subsidiaries ("**GSMI**" or the "**Spirits Division**"). Our Food business (the "**Food Division**") is managed through a number of other subsidiaries, including San Miguel Foods, Inc. ("**San Miguel Foods**"), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. ("**Purefoods-Hormel**"). We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to almost 60 markets worldwide.

We are a subsidiary of San Miguel Corporation ("**SMC**" and together with its portfolio of companies, the "**San Miguel Group**"), one of the largest and most diversified conglomerates in the Philippines, with sales equivalent to approximately 5.2% of Philippine GDP in 2017. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, car distributorship and banking services. We are a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation.

We are listed on the PSE under stock code "**FB**". Our market capitalization was ₱534,784 million (US$9,996 million), with a common share price of ₱90.50 as of October 15, 2018. Prior to the Offering, SMC approved and implemented the internal restructuring and consolidation of its food and beverage businesses under SMFB (previously known as San Miguel Pure Foods Company Inc., "**SMPFC**") (the "**SMFB Consolidation**"). As part of the SMFB Consolidation, SMB and GSMI were consolidated with the Food Division under SMFB, establishing a unique unit within the San Miguel Group focused on the food and beverage businesses. We believe that following the SMFB Consolidation, we stand to benefit from the synergies and cost savings generated through our expanded size, shared infrastructure and group-wide procurement. We also believe that we will be able to extend our reach to even more consumers across various channels in the Philippines and around the globe, ultimately enhancing shareholder value. See "*Business—Corporate Structure and SMFB Consolidation*."

For each of the years ended December 31, 2015, 2016 and 2017, our food and beverage businesses had combined sales of ₱205,396 million, ₱227,279 million and ₱251,589 million (US$4,703 million); gross profit of ₱64,699 million, ₱75,171 million and ₱83,129 million (US$1,554 million); Adjusted EBITDA of ₱37,486 million, ₱44,795 million and ₱49,937 million (US$933 million); and net income of ₱17,854 million, ₱24,002 million and ₱28,226 million (US$528 million), respectively.

For the six-month period ended June 30, 2017, we had sales of ₱119,130 million, gross profit of ₱38,978 million, Adjusted EBITDA of ₱22,583 million and net income of ₱12,805 million compared to sales of ₱137,441 million (US$2,569 million), gross profit of ₱44,833 million (US$838 million), Adjusted EBITDA of ₱26,569 million (US$497 million) and net income of ₱15,370 million (US$287 million) for the six-month period ended June 30, 2018.

Factors Affecting our Results of Operations

Our results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected our results in the past, and which we expect to affect our results in the foreseeable future. Factors other than those discussed below could also have a significant impact on our results of operations and financial condition in the future.

Demand and Pricing

Pricing affects demand for our products and is a key driver of revenue, impacting on our results of operations. When determining our selling prices, we consider various factors including, among others, increases in prices of raw materials and packaging materials and increases in excise tax, fuel prices and other costs of doing business, the prices of our competitors, distribution channel, and general economic conditions. We believe that beer and spirits, as well as many consumer food products, are impulse and discretionary purchases, which are particularly sensitive to movements in disposable incomes, changes in the product prices and competitive pressures.

SMFB has a broad range of food and beverage products that cater to various socio-economic classes.

Demand for our beer, spirits and premium-priced food products is price elastic. In particular, the demand for these products is price elastic for consumers in the lower socio-economic classes where discretionary income is limited. When prices increase or when discretionary income falls, consumers who belong to the lower socio-economic classes tend to cut back on their consumption of beer and spirits and reduce their purchases of premium-priced food products. In addition, demand for beer and spirits products is also influenced by the relative price relationships between beer and other alcoholic beverages, non-alcoholic beverages, basic necessities, and other goods and services in general. Consumers are prone to adjust their buying choices according to shifts in the perceived value-for-money propositions of these products. For example, during periods of relatively weak economic growth and less discretionary income, consumers tend to purchase more economy beer brands, sales of which produce lower profit margins.

Effective January 1, 2017, a unitary excise tax structure was implemented in the Philippines for alcoholic beverages at a rate of ₱23.50 per liter with an increase of 4% per annum. Demand for our beer and spirits products may be affected from such rate increase, which are incorporated in and contribute to the increase in prices of our products. There is also a risk that we would not be able to immediately pass on such rate increases to our customers. However, despite the increase in excise tax, the impact of such rate increases on our beer and spirits business has historically been low as we have put in place a price management program, calibrated to ensure sustained sales volume growth and profit margins. For example, in 2008, although we raised selling prices of beer by 7% in line with an increase in raw materials costs as such time, we continued to enjoy sales volume growth during that period. Similarly from 2014 to 2017, through effective management of anticipated price hikes, we successfully mitigated the effect of excise tax increases and achieved continued sales volume growth. We continue to focus on effective price management to mitigate the risk of decline in consumer demand due to higher prices.

In the last few years, consumers have been turning to our higher alcohol content beer product and our economy spirits, because of the perceived value for money affordability of our products and our consumers' desire to get a stronger alcohol kick at a lower price. Similarly, consumers of our food products may adjust their buying choices and shift from our premium-priced food products to our economy-priced food products when discretionary income falls or is limited. To address this, the Food Division has introduced smaller pack sizes to increase affordability of premium brands. Changes in consumer demand can also affect our product mix, as discussed below.

Changes in Consumer Tastes and Preferences

Consumer preferences may change due to a number of factors, including changes in economic conditions and income levels, shifts in demographic and social trends, changes in lifestyle and leisure activity patterns, regulatory actions, actions of competitors, and negative publicity regarding alcohol consumption, any of which may affect consumers' perception of and willingness to purchase our products, which may impact on our results of operations.

For example, the recent trend in the Philippines towards healthier living is encouraging a shift towards the consumption of low-calorie beer, wine and non-alcoholic drinks as well as healthier food products. In addition, demographic changes in the Philippines, including a growing middle class and young adult population, who tend to live a different lifestyle from the older generation of consumers, have increased the number of potential consumers of our portfolio of products. They have greater exposure to media and other cultures and lifestyles and as a result, they are more adventurous in their choices and are less likely to develop loyalty to any brand or specific type of food or beverage as compared to the generations before them.

Our future growth will depend on our ability to maintain the competitive positions of our product portfolios and brands by being able to proactively anticipate and respond to changes in consumer tastes and preferences. A key element in maintaining the market share for our product portfolios is the ability to continuously introduce new products and product extensions to address these changes. Thus, to address the gaps and shifts in consumer preferences, the Beer and NAB Division introduced *San Miguel Flavored Beer*, a low-alcohol beer that is the first flavored beer in the market, while the Spirits Division introduced the *GSM Blue Flavors* low-proof flavored gin variants namely: Mojito, Brown Coffee and most recently, Margarita and Gin Pomelo. For the more health conscious consumers, we continue to promote *San Mig Zero* and *San Mig Light* in restaurants, bars, and modern trade in key cities while the Food Division launched *Magnolia Free Range Chicken* and *Magnolia Brown Eggs*. To address the growing need for convenient and nutritious meals, the Food Division is expanding its "heat and serve" and "ready-to-eat" food products. To take advantage of the "premiumization" trend of consumers, particularly from the growing middle class seeking higher quality and higher value products, we promote our premium beer brands *San Mig Super Dry*, *Premium All Malt Beer* and *Cerveza Negra.* For the Food Division, we introduced the premium blue line of *Purefoods Deli Line, Jamon Royale* and *Essenso* coffee.

Advertising and Promotions

A key element in maintaining and expanding our market share is through advertising and promotions. Our advertising and promotional expenses include funding for advertising campaigns such as television and radio commercials, print advertisements, below the line advertising, and digital space. Advertising and promotions are important factors for consumer buying choices. Advertising affects consumer awareness of our products and brands, which in turn, affects purchase decisions and consequently, sales volumes. Product differentiation and brand loyalty are achieved through the marketing and image-building efforts of competing brands. We believe that consumer brand preferences are the cumulative result of exposure to the brands over an extended period of time, rather than of one specific advertisement.

Prices of Raw Materials and Packaging Materials

We depend on raw materials, most of which are procured from third parties, to produce our portfolio of products. These materials are sourced from within and outside the Philippines and include (i) for our beer and malt-based products, malted barley and hops, which are primarily sourced from North America, Australia, Europe and China, and adjuncts such as corn and sugar, which are primarily sourced domestically and imported tapioca; (ii) for our spirits products, molasses for alcohol, primarily sourced domestically; and (iii) for our food products, soybean meal, wheat, breeder stocks, boxed beef and other meat, cheese curd and anhydrous milk fat, which are sourced primarily from foreign suppliers, and corn, breeding hogs and beef carcass, which are primarily sourced domestically.

Packaging materials are primarily glass bottles and bottle caps for our beverages businesses and polypropylene sacks, laminate, shipping cases, PE (polyethylene), tin cans, plastics and plastic tubs and lids for our food business. Most of the alcoholic products of our beverages business are packaged in glass bottles, majority of which are manufactured by the Packaging Group. The Packaging Group has one of the largest packaging operations in the Philippines. San Miguel Yamamura Packaging Corporation is 65%-owned by San Miguel Corporation and is a major source for the packaging requirements of our business units. The cost of glass bottles is a significant component of the cost of sales, which is managed by maintaining the RGB system for our beer products and a bottle retrieval network for our spirits products. These returnable glass bottles are used for approximately 40 to 60 cycles over a span of approximately five to 10 years for our beer products with over 90% of the bottles needed for production sourced from the returned bottles via the RGB system. For our Spirits Division, use of second-hand bottles supplied through the bottle retrieval program is expected to decrease bottling costs over time.

Raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and government regulations and controls. In addition, our ability to obtain raw materials and packaging materials is affected by a number of factors beyond our control, including natural disasters, governmental laws and policies, interruptions in production by suppliers and the availability of transportation.

An increase in prices for our raw materials and packaging materials generally leads to an increase in production costs, adversely affecting our operating margins. We have limited hedges against commodity prices and, to the extent we hedge, any such hedging activity may not work as planned. We have been able to mitigate price fluctuations in raw materials to some extent through material substitution. For example, the Food Division has turned to cassava as a substitute for corn. The Beer and NAB Division has broadened its base of alternative materials as carbohydrate source for the brewing process. In addition, the Spirits Division imports alcohol to mitigate the impact of increasing price *vis-à -vis* the decreasing availability of molasses.

Increases in costs of raw materials and packaging materials can typically be passed on to consumers, which may affect consumer demand, as our consumers are generally price sensitive. In some cases, these increases are not immediately passed on to consumers in order to maintain or grow our sales volumes and to protect our market share. As a result, any material increase in the market price of raw materials could have a material adverse effect on our operating margins, which may affect our financial position and operating performance.

Product Mix

Our profit margins and operational performance are affected by changes in product mix. The Food Division is involved in the sale of, among others: (i) branded value-added refrigerated meats and canned foods, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes and coffee and coffee-related products, (ii) feeds, (iii) poultry and fresh meats and (iv) flour and bakery ingredients. Branded value-added products typically command a higher selling price than stable-priced products such as poultry and fresh meats that are sold in *Magnolia Chicken Stations* and *Monterey Meatshops*, flour premixes and bakery ingredients and commodity products. The Food Division has made a concerted effort to improve its product mix by accelerating its shift towards branded value-added and stable-priced products, which it believes have higher or in some cases, more consistent margins compared to commodity products. Changes in the Food Division's product mix from period to period have a significant impact on trends in profit margins and financial performance.

The product mix of our beer products may also affect our results of operations. An increase in sales of our premium segment beers such as *San Miguel Super Dry* and *San Miguel Premium All-Malt* as compared to our mainstream brands could have a positive effect on our margins. The Beer and NAB Division aggressively promotes its premium and upscale brands in Greater Manila and other urban areas and introduced draft variants of these premium brands to increase their sales and improve positioning. While product mix is important, we continue to implement programs that would grow the beer market across the various regions in order to further increase our beer volumes.

Competition

Our products face competition from other domestic producers as well as from imported products and foreign brands. Competitive factors facing our products include price, product quality and availability, production efficiency, brand awareness and loyalty, distribution coverage, security of raw material supply, customer service and the ability to respond effectively to changes in the regulatory environment as well as to shifting consumer tastes and preferences.

The Beer and NAB Division competes mainly with another domestic producer, which sells both its own brand and foreign brands it produces or markets under license, and from foreign brewers, as well as producers of other alcoholic and non-alcoholic beverages. The Spirits Division primarily competes with other domestic producers of spirits, particularly rum and brandy, as well as Chinese wine. The Food Division competes with a number of multi-national, national, regional and local competitors. Although a number of our food, beer and spirits products hold market-leading positions in their respective product categories in the Philippines, we expect to face heightened competition as we continue to grow our business across an increasing number of product areas in the Philippines.

To protect our market-leading positions, we continue to devote resources to marketing, advertising and promotions for above-the-line and below-the-line activations and invest in NPD and innovations. Investments in production facilities as well as logistics capabilities such as ports, provide us better product availability. Marketing initiatives in both conventional and digital formats, nationally and regionally, also help in increasing our brand awareness. In addition, we continue to execute regionally tailored strategies that leverage on our unique understanding of our consumers. Deploying sales force to understand consumer needs and wants, and to provide efficient customer service will also improve brand loyalty.

Outbreak of Diseases

Our Protein business alongside the Philippine poultry and livestock industry is subject to the risk of an outbreak of diseases which can impact demand for certain products of the Company. We undertake the necessary preventive measures to minimize, if not avoid such risk. The Food Division's biosecurity procedures include separation of its breeding, nursery, growing operations as well as bird proofing to prevent the entry of migratory birds into its poultry farms. There are also strict visitor screening and sanitation procedures prior to entrance into any of our farms and facilities. While the market perception can reduce the demand for certain protein products even if the Company's farms are not affected by the outbreak of diseases, the Company optimizes the benefit of being known for its food quality standards and having a diverse product portfolio which offers substitute protein formats as well as other types of food products.

Taxes and Regulatory Environment

We operate in a highly regulated environment and are subject to various taxes, which can impact our results of operations. In our beverage businesses, excise tax in the Philippines accounts for a significant portion of production costs. For the Beer business, effective January 1, 2017, a unitary tax rate of ₱23.50 per liter shall be imposed on all fermented liquors regardless of the net retail price (excluding the excise and value-added taxes) per liter of volume capacity, except those affected by the "no downward classification clause". The rate shall be increased by 4% every year thereafter, as prescribed by the provisions of Revenue Regulation No. 17-2012 dated December 31, 2012 until reviewed and amended by an act of Congress. Excise tax rate effective January 1, 2018 is ₱24.44 per liter. For the Spirits business, effective January 1, 2015, Republic Act No. 10351 imposed an ad valorem tax on distilled spirits equivalent to 20% of the net retail price (excluding the excise and value-added taxes) per proof and a specific tax of ₱20.00 per proof liter. Specific tax rate effective January 1, 2016 is ₱20.80 per proof liter, which shall be increased by 4% every year thereafter, as prescribed by the provisions of Revenue Regulations No. 17-2012 dated December 31, 2012. Specific tax rate effective January 1, 2018 is ₱22.50 per proof liter. The Philippine government also plans to implement tax stamps for alcoholic beverages, including fermented alcohol drinks in 2019 to tackle the rising issue of counterfeiting and illicit liquor trading. The move is also intended to ensure collection of excise duties.

Effective January 1, 2018, a tax of ₱6.00 and ₱12.00 per liter of volume capacity will be assessed on sweetened beverages using purely caloric and/or non-caloric sweeteners and purely high fructose corn syrup, respectively. Exempted from the sweetened beverage tax, however, are milk products, ground coffee, instant soluble coffee and pre-packaged coffee, among others. At present, our NAB products are subject to the lower tax rate of only ₱6.00 per liter. The sale of beverages in the Philippines is also subject to a value-added tax of 12%. The tax on sweeteners and high fructose corn syrup affects the cost of our beer and NAB and our spirits products.

In general, an increase in taxes is passed on to consumers by raising the prices of products, although the timing and size of such increases can be influenced by factors such as inflation and other economic conditions in the Philippines. Price changes that we make in response to changes in tax rates could affect the demand for our products as well as our profit margins, product pricing and net income.

In addition, we are subject to a number of national and local laws, rules and regulations in the Philippines and other countries in which we operate. These include, among others, laws, rules and regulations relating to environmental protection, employee health and safety, food safety and product labeling requirements. We have internal processes and procedures in place to comply with the pertinent laws, rules, and regulations that cover our businesses. Changes in laws, rules and regulations may result in substantial compliance costs and have material adverse effects on our business and operations. See "*Regulatory and Environmental Matters*."

Economic, Social and Political Conditions in the Philippines

Majority of our assets and revenues are located in or derived from our operations in the Philippines. Although the Philippine economy has experienced stable growth in recent years, the Philippine economy has in the past experienced periods of slow or negative growth, high inflation, interest rates, fuel prices, power rates and other costs of doing business, significant depreciation of the Peso, and has been significantly affected by weak economic conditions and volatilities in the global economy and the Asia-Pacific region. Sales of most of our products are directly related to the strength of the Philippine economy as well as the stability of economic, social and political conditions in the country and tend to decline during economic downturns as well as during periods of economic and political uncertainty. While a portion of our product sales are sensitive to changes in income, we also sell products that are considered as staple items or components to staple items which are less sensitive to income changes and adverse economic, social and political conditions.

Seasonality

Our sales are affected by seasonality of consumer buying patterns. In the Philippines, most food and beverage products, including those we produce, experience increased sales from October to December related to the Christmas and New Year's season. In addition, seasonality varies according to product type; in particular, alcoholic beverages experience increased sales in the summer and holiday seasons in the second and fourth quarter. As a result, seasonality could affect our financial condition and results of operations from one quarter to another, particularly in relation to the fourth quarter of each year.

To counter the seasonality of some of our products, we have created marketing and advertising initiatives that encourage the sustained consumption of our products throughout the year.

Critical Accounting Policies

Critical accounting policies are those that are both (i) relevant to the presentation of our financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how our management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, we have identified the significant accounting judgments estimates and assumptions discussed in Note 4 to our Audited Combined Financial Statements and the June 30, 2018 Unaudited Consolidated Interim Financial Statements included, elsewhere in this Prospectus. While we believe that all aspects of our financial statements, including the accounting policies discussed in Note 3 to our Audited Combined Financial Statements and the June 30, 2018 Unaudited Consolidated Interim Financial Statements should be studied and understood in assessing our current and expected financial condition and results of operations, we believe that the significant accounting judgments, estimates and assumptions discussed in Note 4 to our Audited Combined Financial Statements and the June 30, 2018 Unaudited Consolidated Interim Financial Statements warrant particular attention.

New Accounting Pronouncements—New Standards

PFRS 16, Leases, replaces PAS 17, Leases, IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC 15, Operating Leases - Incentives, and SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard introduces a single, on-balance sheet lease accounting model for lessees. Under this model, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments and, subsequently, depreciates the right-of-use asset and recognizes interest on the lease liabilities in profit or loss. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessor is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessor, however, discloses more information in the financial statements, particularly on the risks related to residual values of assets under the lease.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

We are currently performing a detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including our borrowing rate as of January 1, 2019, the composition of our lease portfolio at that date, our latest assessment of whether we will exercise any lease renewal options and the extent to which we choose to use practical expedients and recognition exemptions.

Segment Data

We have three reportable segments: (1) beer and NAB, (2) spirits and (3) food.

Our beer and NAB segment is engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets. The beer and NAB segment is referred to as the Beer and NAB Division elsewhere in the Prospectus and is operated through our subsidiary, SMB. As of the date of this Prospectus, Kirin owns 48.54% of SMB. See *"Business – Beverage Business – Beer and NAB Division."*

Our spirits segment is engaged in the production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants which are available nationwide, while some are exported to select countries. The spirits segment is referred to as the Spirits Division elsewhere in this Prospectus.

Our food segment, referred to elsewhere in this Prospectus as the Food Division, is engaged in (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, biscuits and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (described elsewhere in this Prospectus as the Prepared and Packaged Food segment of the Food Division); (ii) the production and sale of feeds (described elsewhere in this Prospectus as the Animal Nutrition and Health segment of the Food Division); (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats (described elsewhere in this Prospectus as the Protein segment of the Food Division); and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations (described elsewhere in this Prospectus as the Others segment of the Food Division).

The following table sets forth the contribution of each reportable segment to our total sales, gross profit, operating results and net income (excluding inter-segment transactions) for the periods indicated. For additional information about our segment results, see Note 6 to our Audited Combined Financial Statements included in this Prospectus.

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		2016		2017			2017		2018		
	(in millions, except percentages)											
Sales[1]	₱	%	₱	%	₱	US$[2]	%	₱	%	₱	US$[2]	%
Beer and NAB	82,371	40.1	97,156	42.7	113,250	2,117	45.0	53,060	44.5	62,509	1,168	45.5
Spirits	16,170	7.9	18,560	8.2	20,891	390	8.3	10,123	8.5	12,046	225	8.8
Food	106,855	52.0	111,563	49.1	117,448	2,195	46.7	55,947	47.0	62,886	1,176	45.7
Total	**205,396**	**100.0**	**227,279**	**100.0**	**251,589**	**4,702**	**100.0**	**119,130**	**100.0**	**137,441**	**2,569**	**100.0**
Gross Profit[1]												
Beer and NAB	37,563	58.1	44,851	59.7	50,281	940	60.5	23,180	59.4	27,810	520	62.0
Spirits	4,385	6.8	4,686	6.2	5,267	98	6.3	2,554	6.6	3,107	58	6.9
Food	22,751	35.1	25,634	34.1	27,581	516	33.2	13,244	34.0	13,916	260	31.1
Total	**64,699**	**100.0**	**75,171**	**100.0**	**83,129**	**1,554**	**100.0**	**38,978**	**100.0**	**44,833**	**838**	**100.0**
Operating Results[1] [3]												
Beer and NAB	22,637	73.4	27,195	73.4	31,168	583	73.5	14,044	73.7	17,315	324	75.6
Spirits	571	1.8	917	2.5	1,307	24	3.1	551	2.9	862	16	3.8
Food	7,644	24.8	8,931	24.1	9,926	186	23.4	4,460	23.4	4,712	88	20.6
Total	**30,852**	**100.0**	**37,043**	**100.0**	**42,401**	**793**	**100.0**	**19,055**	**100.0**	**22,889**	**428**	**100.0**
Net Income[1]												
Beer and NAB(4)	13,524	75.8	17,665	73.6	20,718	388	73.4	9,400	73.4	11,803	221	76.8
Spirits	(422)	(2.4)	361	1.5	602	11	2.1	265	2.1	506	9	3.3
Food	4,752	26.6	5,976	24.9	6,906	129	24.5	3,140	24.5	3,061	57	19.9
Total	**17,854**	**100.0**	**24,002**	**100.0**	**28,226**	**528**	**100.0**	**12,805**	**100.0**	**15,370**	**287**	**100.0**

Notes:

(1) *Amounts exclude inter-segment transactions.*

(2) *Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).*

(3) *Operating results is determined by deducting selling and administrative expenses from gross profit.*

(4) *Net income for the Beer and NAB segment includes net income attributable to non-controlling interests of ₱5,884 for the six-month period ended June 30, 2018, ₱10,391 million in 2017, ₱8,853 million in 2016 and ₱6,742 in 2015. See "Business-Beverage Business-Beer and NAB Division."*

Description of Key Line Items

Our results of operations with respect to the years ended December 31, 2015, 2016 and 2017 are based on, and should be read in conjunction with, our Audited Combined Financial Statements and related notes included elsewhere in this Prospectus. Our results of operations with respect to the six months ended June 30, 2017 and 2018 are based on, and should be read in conjunction with, our June 30, 2018 Unaudited Consolidated Interim Financial Statements and related notes included elsewhere in this Prospectus.

Sales

We generate sales primarily from the production and sale of beer and NAB, spirits and food products.

We recognize revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration such as right of return, trade discounts and volume rebates.

Cost of Sales and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases of equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Cost of Sales

Cost of sales consists of:

- inventories used, including the cost of raw materials used in production, direct manufacturing supplies, direct containers, shipping cost of materials and cost of contracted services directly attributable to the production of goods;
- taxes and licenses, including excise, real property and business taxes;
- communications, light, fuel and water costs relating to the Group's production processes and facilities;
- depreciation and amortization which relate primarily to the depreciation of production equipment, facilities, buildings and amortization of breeding stocks;
- personnel costs, including salaries, wages and related employee benefits for employees involved in manufacturing activities;
- freight, trucking and handling costs relating to transfers of raw materials and biological assets from storage/farms and manufacturing or production facilities;
- repairs and maintenance costs relating to the upkeep of production equipment, facilities and buildings;
- rental expenses attributable to production, such as rental cost of warehouses and pallets;
- write-down of raw materials issued to production to net realizable value; and
- other costs attributable to cost of sales, such as insurance, contracted services, research and development costs and various items of manufacturing overhead which are individually immaterial.

Selling and Administrative Expenses

Selling expenses consist of:

- freight, trucking and handling expenses incurred in connection with the shipment and distribution of finished products;
- advertising and promotion expenses incurred in marketing finished products, including the cost of media advertisements, event sponsorships, billboards, trade shows, merchandising and other marketing and promotional activities;
- personnel expenses, including salaries, wages and employee benefits for personnel involved in sales operations;
- contracted services, which represent cost of services performed by third party contractors related to selling and warehousing activities;
- rental expenses, which include, among others, rental of warehouses for finished goods, rental of transportation equipment used in trade and rental of sales offices and warehousing fees;
- taxes and licenses expenses, which include business tax and real property tax for sales offices, and vehicle registration;
- depreciation and amortization, including depreciation on property, plant and equipment attributable to selling activities and amortization of pallets/containers;

- write-down of finished goods that are stored in sales locations and warehouses to net realizable value; and
- other selling expenses, such as insurance, office supplies, provision for (or reversal of) impairment losses on receivables and various items which are individually immaterial.

Administrative expenses consist of:

- personnel expenses, including salaries, wages and employee benefits for administrative and corporate support unit personnel;
- depreciation and amortization, which relates primarily to depreciation of office buildings, information technology equipment and other office equipment and amortization of containers, kegs, CO2 cylinders and pallets attributable to administrative activities;
- contracted services, which represent cost of services performed by third party contractors related to administrative activities;
- rental expenses, which include, among others, rental of offices used for administrative purposes;
- management fees, which include charges for shared administrative services by SMC;
- corporate special programs, which include corporate social responsibility initiatives and company events for employees;
- taxes and licenses, which include real property tax for offices used for administrative purposes, annual registration fee and documentary stamp tax;
- repairs and maintenance expenses relating to the upkeep of office buildings, leasehold improvements, transportation and other equipment, and furniture and fixtures;
- write-down of containers to net realizable value;
- professional fees, which include legal fees, audit fees and appraisal fees;
- communications, light, fuel and water expenses relating to administrative activities;
- insurance expenses, which include property insurance for offices;
- travel and transportation expenses, which include car rental, airfare and travel expenses;
- supplies expenses, which include office supplies; and
- other administrative expenses, such as entertainment and amusement expenses, gas and oil, donations, and various items which are individually immaterial.

Interest Expense and Other Financing Charges

Our interest expense and other financing charges consist of:

- interest expense on notes payable, long-term debt and other liabilities; and
- other financing charges, which include amortization of debt issue costs.

Interest Income

Our interest income consists of interest received on short-term investments, cash deposited with banks and other investments.

Equity in Net Losses of Joint Ventures

Our equity in net losses of joint ventures represents the share in the losses of its joint ventures under the spirits segment.

Gain on Sale of Investments and Property and Equipment

Our gain on sale of investments and property and equipment primarily consists of gain or loss on sale of investments, machinery and equipment, transportation equipment, office equipment, furniture and other small equipment, and investment property.

Other Income (Charges) - Net

Our other income (charges) - net consist primarily of:

- rent income;
- marked-to-market losses on derivatives;
- foreign exchange losses;
- losses on impairment of property, plant and equipment, and idle assets; and
- maintenance cost and depreciation of idle production facilities.

Income Tax Expense

Our income tax expense consists primarily of:

- current income tax expense; and
- deferred income tax expense.

Results of Operations*

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Sales

Our consolidated sales increased by 15.4% from ₱119,130 million for the six months ended June 30, 2017 to ₱137,441 million for the six months ended June 30, 2018. This increase resulted from the increase in sales in our Beer and NAB, Spirits, and Food segments.

Beer and NAB

Sales in our Beer and NAB segment increased by 17.8% from ₱53,060 million for the six months ended June 30, 2017 to ₱62,509 million for the six months ended June 30, 2018. This increase was primarily due to the 10.4% increase in volume driven by strong market demand and effective marketing campaigns. Increase in price implemented in October 2017 for domestic operations also resulted to the increase in sales.

Spirits

Sales in our Spirits segment increased by 19.0% from ₱10,123 million for the six months ended June 30, 2017 to ₱12,046 million for the six months ended June 30, 2018. This increase was primarily due to increase in sales of core brands *Ginebra San Miguel* and *Vino Kulafu* by 18.8% driven by effective marketing campaigns.

Food

Sales in our Food segment increased by 12.4% from ₱55,947 million for the six months ended June 30, 2017 to ₱62,886 million for the six months ended June 30, 2018 mainly on account of the 10.1% volume growth and better selling prices. This growth was primarily due to the strong performance of the Feeds, Poultry and Fresh Meats and Branded Value-Added businesses. Poultry and Fresh Meats business posted revenue and volume growth of 10.9% and 8.1%, respectively, while Feeds business posted revenue growth of 15.9% driven by the 15.1% volume growth which was augmented by the additional capacity coming from the newly built feedmill. On the other hand, Branded Value-Added business posted revenue growth of 14.4% driven by the 13.1% volume growth coming from the fast-growing economy and mid-priced processed meat products, chicken nuggets, butter and cheese, supported by effective sales and marketing activities. Revenues of the Flour Milling business increased by 6.5% mainly on account of the increase in revenues of the grain terminal operations.

Cost of Sales

Our consolidated cost of sales increased by 15.5% from ₱80,152 million for the six months ended June 30, 2017 to ₱92,608 million for the six months ended June 30, 2018. This increase was primarily due to the increase in volume across all segments and increase in prices of raw materials, particularly in Feeds, Dairy and Processed Meats, and higher excise taxes for our beer and Spirits products.

The following table summarizes the cost of sales for the six months ended June 30, 2018 and 2017:

	Beer and NAB		**Spirits**		**Food**		**Total**	
	For the six months period ended June 30,							
	2018	2017	2018	2017	2018	2017	2018	2017
Inventories	₱6,039	₱5,269	₱4,371	₱3,516	₱43,046	₱37,680	₱53,456	₱46,465
Excise Tax	25,297	21,812	3,741	3,316	-	-	29,038	25,128
Labor	830	746	142	108	724	621	1,696	1,475
Others	2,533	2,053	685	629	5,200	4,402	8,418	7,084
	₱34,699	**₱29,880**	**₱8,939**	**₱7,569**	**₱48,970**	**₱42,703**	**₱92,608**	**₱80,152**

* *As used in this section, the term "operating results" means gross profit less selling and administrative expenses.*

Beer and NAB

Cost of sales in our Beer and NAB segment increased by 16.1% from ₱29,880 million for the six months ended June 30, 2017 to ₱34,699 million for the six months ended June 30, 2018. The increase was primarily due to the increase in sales volume and increase in excise taxes of domestic operations.

Spirits

Cost of sales in our Spirits segment increased by 18.1% from ₱7,569 million for the six months ended June 30, 2017 to ₱8,939 million for the six months ended June 30, 2018. The increase was primarily due to the increase in sales volume of core brands and increase in excise taxes.

Food

Cost of sales in our Food segment increased by 14.7% from ₱42,703 million for the six months ended June 30, 2017 to ₱48,970 million for the six months ended June 30, 2018 mainly due to the 10.1% increase in volume and generally higher cost of major raw materials, particularly in Feeds, Dairy and Processed Meats businesses, as well as increase in fixed production expenses such as personnel expenses, plant repairs and maintenance, and amortization of breeder stocks.

Gross profit and margin

Our consolidated gross profit increased by 15.0% from ₱38,978 million for the six months ended June 30, 2017 to ₱44,833 million for the six months ended June 30, 2018. This increase resulted from the increase in sales in our Beer and NAB, Spirits, and Food segments.

Beer and NAB

Gross profit increased by 20.0% from ₱23,180 million for the six months ended June 30, 2017 to ₱27,810 million for the six months ended June 30, 2018. Gross margin slightly improved by 0.8% from 43.7% in the first half of 2017 to 44.5% in the same period in 2018. The price increase implemented in October 2017 cushioned the impact of the increase in excise taxes in domestic operations.

Spirits

Gross profit increased by 21.7% from ₱2,554 million for the six months ended June 30, 2017 to ₱3,107 million for the six months ended June 30, 2018. Gross margin increased by 0.6% from 25.2% in the first half of 2017 to 25.8% in the same period in 2018. Margin have been relatively stable resulting from efficiencies in distillery operations, usage of economically-priced alcohol and some price increase that mitigated the incremental costs from increase in raw materials, excise tax and other costs.

Food

Gross profit increased by 5.1% from ₱13,244 million for the six months ended June 30, 2017 to ₱13,916 million for the six months ended June 30, 2018. This was driven by higher revenues and improved operational efficiencies in farms. Gross margin, however, decreased by 1.6% from 23.7% in the first half of 2017 to 22.1% in the same period in 2018 due to margin squeeze brought about by the double-digit increases in major raw material costs of feeds, processed meats and dairy products which were not sufficiently covered by selling price increases.

Selling and Administrative Expenses

Our consolidated selling and administrative expenses increased by 10.1% from ₱19,923 million for the six months ended June 30, 2017 to ₱21,944 million for the six months ended June 30, 2018. This increase was primarily due to the increase in personnel, logistics and contracted services costs. Our selling and administrative expenses generally tend to increase as we expand our market penetration and share.

Beer and NAB

Selling and administrative expenses in our Beer and NAB segment increased by 14.9% from ₱9,136 million for the six months ended June 30, 2017 to ₱10,495 million for the six months ended June 30, 2018. Distribution and contracted services costs increased from ₱1,603 million in the first semester of 2017 to ₱1,995 million in the same period in 2018 due to higher sales volume for domestic operations. Advertising and promotions is higher by 24.2% in the second quarter of 2018 versus same period last year owing to relevant marketing campaigns and trade and consumer promotions launched to further strengthen the brand's equity. Meanwhile, personnel expenses also increased by 5.9% due to salary increases.

Spirits

Selling and administrative expenses in our Spirits segment increased by 12.1% from ₱2,003 million for the six months ended June 30, 2017 to ₱2,245 million for the six months ended June 30, 2018. The increase was primarily due to higher personnel expenses by 5.6% and increase in repair and maintenance costs by 130%.

Food

Selling and administrative expenses in our Food segment increased by 4.8% from ₱8,784 million for the six months ended June 30, 2017 to ₱9,204 million for the six months ended June 30, 2018. The increase was mainly due to 14.2% increase in logistics costs from ₱4,271 million for the six months ended June 30, 2017 to ₱4,877 million for the six months ended June 30, 2018. The Food segment's effort to expand distribution coverage and improve customer servicing resulted in higher warehouse rental, trucking and other related services. Increase in trucking rates, brought about by rising fuel cost, likewise contributed to the increase in logistics costs.

Interest Expense and Other Financing Charges

Our consolidated interest expense and other financing charges decreased by 4.2% from ₱1,372 million for the six months ended June 30, 2017 to ₱1,314 million for the six months ended June 30, 2018. This decrease was primarily due to the redemption of the Series D bonds in April 2017 of our Beer and NAB segment in the amount of ₱3,000 million.

Interest Income

Our consolidated interest income increased by 71.6% from ₱317 million for the six months ended June 30, 2017 to ₱544 million for the six months ended June 30, 2018. This increase was primarily due to higher average level of money market placements of the Beer and NAB segment but was partially offset by the decline in the average level of money market placements of the Food segment.

Equity in Net Losses of Joint Ventures

Our consolidated equity in net losses of joint ventures increased by 34.1% from ₱41 million for the six months ended June 30, 2017 to ₱55 million for the six months ended June 30, 2018. This increase was due to the share in net losses recognized during the period.

Gain on Sale of Investments and Property and Equipment

Our consolidated gain on sale of investments and property and equipment decreased by 75.0% from ₱12 million for the six months ended June 30, 2017 to ₱3 million for the six months ended June 30, 2018. This decrease was primarily due to lesser disposal of assets of the Food and Beer and NAB segments during the year.

Other Income (Charges) - Net

Our consolidated other income (charges) - net decreased from ₱42 million other income-net for the period ended June 30, 2017 to ₱203 million other charges-net for the six months ended June 30, 2018. Other charges in 2018 was primarily due to higher marked-to-market losses on importations on account of Philippine peso depreciation against other foreign currencies of the Food and Beer and NAB segments.

Net Income before Income Tax

As a result of the foregoing, our consolidated net income before income tax increased by 21.4% from ₱18,013 million for the six months ended June 30, 2017 to ₱21,864 million for the six months ended June 30, 2018.

Income Tax Expense

Our income tax expense increased by 24.7% from ₱5,208 million for the six months ended June 30, 2017 to ₱6,494 million for the six months ended June 30, 2018. This increase was primarily due to the higher current income tax expense resulting from the increase in consolidated taxable income.

Net Income

As a result of the foregoing, our consolidated net income increased by 20.0% from ₱12,805 million for the six months ended June 30, 2017 to ₱15,370 million for the six months ended June 30, 2018. Net income of the Beer and NAB segment increased by 25.6% from ₱9,400 million in 2017 to ₱11,803 million in 2018, net income of the Spirits segment increased by 90.9% from ₱265 million in 2017 to ₱506 million in 2018 and net income of the Food segment slightly decreased by 2.5% from ₱3,140 million in 2017 to ₱3,061 million in 2018.

The Beer and NAB segment continued to make up the majority of our net income, contributing 76.8% of total net income, while the Food and Spirits segments contributed 19.9% and 3.3%, respectively.

Net Income after Tax and Non-controlling Interests

As a result of the foregoing, our consolidated net income after tax and non-controlling interests increased by 16.8% from ₱7,929 million for the six months ended June 30, 2017 to ₱9,260 million for the six months ended June 30, 2018. Net income after tax and non-controlling interests of the Beer and NAB segment increased by 25.8% from ₱4,706 million for the six months ended June 30, 2017 to ₱5,919 million for the six months ended June 30, 2018, net income after tax and non-controlling interests of the Spirits segment increased by 91.1% from ₱180 million for the six months ended June 30, 2017 to ₱344 million for the six months ended June 30, 2018 and net income after tax and non-controlling interests of the Food segment slightly decreased by 1.5% from ₱3,043 million for the six months ended June 30, 2017 to ₱2,997 million for the six months ended June 30, 2018.

Year Ended December 31, 2017 compared to year ended December 31, 2016

Sales

Our combined sales increased by 10.7% from ₱227,279 million in 2016 to ₱251,589 million in 2017. This increase resulted from the increase in sales in our beer and NAB, spirits, and food segments.

Beer and NAB

Sales in our beer and NAB segment increased by 16.6% from ₱97,156 million in 2016 to ₱113,250 million in 2017. This increase was primarily due to the 12.9% increase in volume driven by strong economic growth and effective marketing campaigns and to a lesser extent due to the price increase implemented effective October 1, 2017 for domestic operations due to implementation of excise tax on alcohol.

Spirits

Sales in our spirits segment increased by 12.6% from ₱18,560 million in 2016 to ₱20,891 million in 2017. This increase was primarily due to the increase in sales volume by 11.1% of core brands *Ginebra San Miguel* and *Vino Kulafu* driven by effective marketing campaigns and to a lesser extent, the price increase in April 2017 resulting from the implementation of an increase in excise tax on alcohol.

Food

Sales in our food segment increased by 5.3% from ₱111,563 million in 2016 to ₱117,448 million in 2017, mainly on account of the 3.5% volume growth and better selling prices. This increase was primarily due to the strong performance of Poultry and Fresh Meats business which posted revenue and volume growth of 7.4% and 3.3%, respectively, and Branded Value-Added business, which posted revenue and volume growth of 6.3% and 7.4%, respectively. Although the Poultry business experienced a 5.3% volume decline in the third quarter compared to the preceding quarter, and more significantly in chicken prices brought about by the short-lived avian flu outbreak, it was able to quickly recover as our farms were unaffected. Our adequate supply of broilers and extensive cold chain facilities positioned us well for the immediate poultry demand recovery in the fourth quarter of 2017. The sales growth in Branded Value-Added products was driven by our increased focus in innovation through the launch of new products and investments made to improve our distribution. Revenues of Feeds business grew by 2.4% in 2017 on account of higher volumes which was limited by lack of capacity, while selling prices averaged slightly lower than previous year, partly due to sales mix. On the other hand, revenues of the Flour Milling business declined by 2.9% due to lower selling prices as result of increased competition.

Cost of Sales

Our combined cost of sales increased by 10.8% from ₱152,108 million in 2016 to ₱168,460 million in 2017. This increase was primarily due to the increase in volume across all segments and increase in prices of raw materials, particularly for certain food segment raw materials for feeds, dairy and other raw materials needed for producing certain branded value-added products, and higher excise taxes for our beer and spirits products.

The following table summarizes the cost of sales in 2017 and 2016:

	Beer and NAB		**Spirits**		**Food**		**Total**	
	2017	2016	2017	2016	2017	2016	2017	2016
Inventories	₱11,299	₱10,172	₱7,277	₱6,619	₱79,549	₱76,508	₱98,125	₱93,299
Excise Tax	45,667	37,042	6,689	5,748	-	-	52,356	42,790
Labor	1,589	1,443	235	186	1,304	1,196	3,128	2,825
Others	4,414	3,648	1,423	1,321	9,014	8,225	14,851	13,194
	₱62,969	**₱52,305**	**₱15,624**	**₱13,874**	**₱89,867**	**₱85,929**	**₱168,460**	**₱152,108**

Beer and NAB

Cost of sales in our beer and NAB segment increased by 20.4% from ₱52,305 million in 2016 to ₱62,969 million in 2017. The increase was primarily due to the increase in sales volume and the 9.7% per case increase in excise taxes of domestic operations.

Spirits

Cost of sales in our spirits segment increased by 12.6% from ₱13,874 million in 2016 to ₱15,624 million in 2017. The increase was primarily due to the increase in sales volume and the 5.6% per case increase in excise taxes.

While some of our competitors experienced higher raw material costs as a result of an overall increase in raw material prices, our spirits operations were relatively shielded from this phenomenon because of our strategic sourcing of critical input materials such as molasses, imported alcohol and glass.

Food

Cost of sales in our food segment increased by 4.6% from ₱85,929 million in 2016 to ₱89,867 million in 2017. Cost of sales increased on account of the 3.5% volume growth, as well as increase in costs. This increase was primarily driven by higher cost of major raw materials for feeds, dairy and processed meats, in particular, soybean meal, anhydrous milk fat, buttermilk powder, cheese curd, skimmed milk powder, oils, and imported meats. The depreciation of the Philippine peso also increased food segment's cost of sales. These cost increases were tempered by improvements in productivity and operational efficiencies such as increased adoption of climate-controlled systems in poultry and hog farms that resulted in higher live weight and livability, as well as automation of certain production activities.

Gross profit and margin

Our combined gross profit increased by 10.6% from ₱75,171 million in 2016 to ₱83,129 million in 2017. This increase resulted from the increase in sales in our beer and NAB, spirits, and food segments.

Beer and NAB

Gross profit increased by 12.1% from ₱44,851 million in 2016 to ₱50,281 million in 2017. Gross margin slightly decreased by 1.8% from 46.2% in 2016 to 44.4% in 2017 due to the implementation of the Revised Tax Code in 2013 for domestic operations that sought to transition to a single tax rate by 2017 resulting in a unified tax rate of ₱23.50 per liter in excise tax in 2017. The implementation of the Revised Tax Code, together with the increase in sales volume, resulted in overall excise taxes moving higher by 23% in 2017.

Spirits

Gross profit increased by 12.4% from ₱4,686 million in 2016 to ₱5,267 million in 2017. Gross margin remained at 25.2% in 2016 and 2017.

Food

Gross profit increased by 7.6% from ₱25,634 million in 2016 to ₱27,581 million in 2017 on account of higher volume and higher prices of poultry and fresh meats. Gross margin, likewise, increased from 23.0% in 2016 to 23.5% in 2017. Gross margin of Poultry and Fresh Meats business increased by 3.0%, however, this was tempered by lower gross margins in Feeds and Flour Milling businesses on account of lower selling prices. On the other hand, gross margin of Branded Value-Added business averaged lower mainly due to sales mix as a result of faster growth of economy and mid-priced products, as well as higher raw material costs.

Selling and Administrative Expenses

Our combined selling and administrative expenses increased by 6.8% from ₱38,128 million in 2016 to ₱40,728 million in 2017. This increase was primarily due to the increase in logistics and manpower costs and advertising expenses. Our selling and administrative expenses generally tend to increase as we expand our market penetration and share.

Beer and NAB

Selling and administrative expenses in our beer segment increased by 8.3% from ₱17,656 million in 2016 to ₱19,113 million in 2017. The increase was primarily due to higher manpower costs, advertising and promotions, distribution and contracted services costs. Distribution and contracted services costs and manpower costs increased by 9.9% from ₱7,802 million in 2016 to ₱8,575 million in 2017 driven by higher volumes and salary increases. Advertising and promotions expenses increased by 34.4% from ₱3,056 million in 2016 to ₱4,108 million in 2017 driven by new advertising campaigns and increased digital presence in support of volume growth.

Spirits

Selling and administrative expenses in our spirits segment increased by 5.1% from ₱3,769 million in 2016 to ₱3,960 million in 2017. The increase was primarily due to the increase in advertising and promotion. Advertising and promotions expenses increased by 23.3% from ₱878 million in 2016 to ₱1,083 million in 2017 to support the volume growth and to promote our newest *GSM Blue Flavors* variants.

Food

Selling and administrative expenses in our food segment increased by 5.7% from ₱16,703 million in 2016 to ₱17,655 million in 2017. The increase, which was primarily due to higher logistics and manpower costs of 8.7% from ₱10,754 million in 2016 to ₱11,689 million in 2017, was in line with efforts to improve customer servicing and expand distribution coverage, particularly in general trade and in Visayas and Mindanao (the "**VisMin region**") which translated to a 12.1% revenue growth in VisMin region. The increase in logistics costs, which include warehouse rental, hauling, trucking and related services expenses, from ₱7,875 million in 2016 to ₱8,506 million in 2017, was partially offset by the 12.6% decline in advertising and promotion expenses from ₱2,112 million in 2016 to ₱1,845 million in 2017, coming from higher spending on new products launched in 2016.

Interest Expense and Other Financing Charges

Our combined interest expense and other financing charges decreased by 17.2% from ₱3,212 million in 2016 to ₱2,658 million in 2017. This decrease was primarily due to the redemption of the Series D bonds in April 2017 of our beer and NAB segment in the amount of ₱3,000 million, settlement of notes payable of the spirits segment in the amount of ₱2,466 million and the capitalization of borrowing costs directly attributable to the construction of the expansion projects of our food segment.

Interest Income

Our combined interest income increased by 30.9% from ₱511 million in 2016 to ₱669 million in 2017. This increase was primarily due to higher returns on money market placements of the beer and NAB segment partially offset by a decline in the average level of money market placements of the food segment.

Equity in Net Losses of Joint Ventures

Our combined equity in net losses of joint ventures increased by 91.8% from ₱97 million in 2016 to ₱186 million in 2017. This increase was primarily due to the increase in the provision for possible losses on uncollectible receivables of the joint venture company under our spirits segment.

Gain on Sale of Investments and Property and Equipment

Our combined gain on sale of investments and property and equipment decreased from ₱149 million in 2016 compared to nil in 2017. This decrease was primarily due to the one-time gain recognized in 2016 from the disposal of an investment property by our food segment.

Other Charges - Net

Our combined other charges - net increased by 23.7% from ₱295 million in 2016 to ₱365 million in 2017. The increase was primarily due to the recognition in 2017 of additional impairment loss on the fixed asset of a foreign subsidiary of our beer and NAB segment.

Net Income before Income Tax

As a result of the foregoing, our combined net income before income tax increased by 16.9% from ₱34,099 million in 2016 to ₱39,861 million in 2017.

Income Tax Expense

Our income tax expense increased by 15.2% from ₱10,097 million in 2016 to ₱11,635 million in 2017. This increase was primarily due to the higher current income tax expense which was a result of the increase in the combined taxable income.

Net Income

As a result of the foregoing, our combined net income increased by 17.6% from ₱24,002 million in 2016 to ₱28,226 million in 2017. Net income of the beer and NAB segment increased by 17.3% from ₱17,665 million in 2016 to ₱20,718 million in 2017, net income of the spirits segment increased by 66.8% from ₱361 million in 2016 to ₱602 million in 2017 and net income of the food segment increased by 15.6% from ₱5,976 million in 2016 to ₱6,906 million in 2017.

Net income across all three segments each experienced a double-digit increase for the year. The beer and NAB segment continued to make up the majority of our net income, contributing 73.4% of total net income, while the food segment contributed 24.5%. While contributing only 2.1% of total net income in 2017, the spirits segment showed considerable growth, with year-on-year net income gain of 66.8%. This across the board underscores the successful top line growth strategies we implemented across the divisions, including marketing initiatives, new product launches, penetration into new geographies, as well as the continued focus on cost-saving and margin expansion as discussed above.

Net Income after Tax and Non-controlling Interests

As a result of the foregoing, our combined net income after tax and non-controlling interests increased by 17.6% from ₱23,267 million in 2016 to ₱27,356 million in 2017. Net income after tax and non-controlling interests of the beer and NAB segment increased by 17.2% from ₱17,224 million in 2016 to ₱20,185 million in 2017, of which ₱10,327 million is attributable to SMFB. Net income after tax and non-controlling interests of the spirits segment increased by 66.8% from ₱361 million in 2016 to ₱602 million in 2017, of which ₱409 million is attributable to SMFB. Net income after tax and non-controlling interests of the food segment increased by 15.6% from ₱5,682 million in 2016 to ₱6,569 million in 2017.

Year Ended December 31, 2016 compared to year ended December 31, 2015

Sales

Our combined sales increased by 10.7% from ₱205,396 million in 2015 to ₱227,279 million in 2016. This increase resulted from the increase in sales in our beer and NAB, spirits, and food segments.

Beer and NAB

Sales in our beer and NAB segment increased by 17.9% from ₱82,371 million in 2015 to ₱97,156 million in 2016. This increase was primarily due to the increase in sales volume by 15.4% and implementation of price increase effective April 1, 2016 for domestic operations. The growth in sales volume was mainly driven by the implementation of new marketing campaigns focused on increasing demand, combined with favorable economic conditions.

Spirits

Sales in our spirits segment increased by 14.8% from ₱16,170 million in 2015 to ₱18,560 million in 2016. This increase was primarily due to increase in sales volume of 9.5% primarily of the core brands *Ginebra San Miguel* and *Vino Kulafu* and a price increase on liquor products implemented in January 2016.

Food

Sales in our food segment increased by 4.4% from ₱106,855 million in 2015 to ₱111,563 million in 2016. This increase was primarily due to the 5.0% increase in total sales volume. Poultry & Fresh Meats, Feeds and Branded Value-Added businesses sustained strong performance posting revenue growth of 7.1%, 2.5% and 7.3%, respectively, and volume growth of 6.6%, 3.4% and 5.9%, respectively. Volume growth of the Poultry and Fresh Meats business was driven by higher sales to foodservice outlets and stable-priced channel such as chicken stations and *lechon manok* outlets. Volume growth of the Feeds business was driven by broiler and specialty feeds. Sales growth of the Branded Value-Added business was driven by better distribution increasing its sales in all trade channels, as well as better sales mix which translated to higher average selling prices. The food segment's sales growth was partially offset by the industry-wide downtrend in the selling price of flour resulting from declining wheat costs and increasing competition, as well as drop in pork prices. Selling prices of dairy likewise decreased following the decline in the price of dairy raw materials.

Cost of Sales

Our combined cost of sales increased by 8.1% from ₱140,697 million in 2015 to ₱152,108 million in 2016. This increase was primarily due to the increase in volume across all segments and higher excise taxes for our beer and spirits products.

The following table summarizes the cost of sales in 2016 and 2015:

	Beer and NAB		**Spirits**		**Food**		**Total**	
	2016	2015	2016	2015	2016	2015	2016	2015
Inventories	₱10,172	₱10,010	₱6,619	₱5,210	₱76,508	₱75,786	₱93,299	₱91,006
Excise Tax	37,042	30,268	5,748	4,941	-	-	42,790	35,209
Labor	1,443	1,311	186	156	1,196	817	2,825	2,284
Others	3,648	3,219	1,321	1,478	8,225	7,501	13,194	12,198
	₱52,305	**₱44,808**	**₱13,874**	**₱11,785**	**₱85,929**	**₱84,104**	**₱152,108**	**₱140,697**

Beer and NAB

Cost of sales in our beer and NAB segment increased by 16.7% from ₱44,808 million in 2015 to ₱52,305 million in 2016. The increase was primarily due to higher sales volume and the 8.6% per case upward adjustment in excise taxes rates of domestic operations.

Spirits

Cost of sales in our spirits segment increased by 17.7% from ₱11,785 million in 2015 to ₱13,874 million in 2016. The increase was primarily due to the increase in sales volume and the 6.4% per case increase in excise taxes.

Food

Cost of sales in our food segment increased by 2.2% from ₱84,104 million in 2015 to ₱85,929 million in 2016. Cost of sales increased in line with the increase in sales volume. This was, however, tempered by lower cost of major raw materials, in particular, dairy, soybean meal, wheat, corn, and imported meats. The adoption of the climate-controlled system in poultry and hog farms continued to translate to improvement in productivity. In addition, there was an increased usage of cassava which contributed to lower feed costs.

Gross profit and margin

Our combined gross profit increased by 16.2% from ₱64,699 million in 2015 to ₱75,171 million in 2016. This increase resulted from the increase in sales in our beer and NAB, spirits, and food segments.

Beer and NAB

Gross profit increased by 19.4% from ₱37,563 million in 2015 to ₱44,851 in 2016. Gross margin slightly increased by 0.6% from 45.6% in 2015 to 46.2% in 2016. With the implementation of the Revised Tax Code in 2013 that sought to transition to a single tax rate by 2017, overall excise tax expenses increased by 22% in 2016. The increase in excise taxes was mitigated by the decline in raw material prices and other manufacturing supplies.

Spirits

Gross profit increased by 6.9% from ₱4,385 million in 2015 to ₱4,686 million in 2016. Gross margin decreased by 1.9% from 27.1% in 2015 to 25.2% in 2016 due to increase in excise tax.

Food

Gross profit increased by 12.7% from ₱22,751 million in 2015 to ₱25,634 million in 2016 mainly due to higher revenues, improved operational efficiencies and generally lower cost of major raw materials resulting also in higher gross margin by 1.7% from 21.3% in 2015 to 23.0% in 2016. This was mainly driven by margin improvements in Feeds, Poultry and Fresh Meats, and Branded Value-Added businesses, tempered by the decline in gross margin of Flour Milling business due to lower selling prices.

Selling and Administrative Expenses

Our combined selling and administrative expenses increased by 12.6% from ₱33,847 million in 2015 to ₱38,128 million in 2016, primarily due to the increase in manpower and logistics costs and advertising expenses.

Beer and NAB

Selling and administrative expenses in our beer and NAB segment increased by 18.3 % from ₱14,926 million in 2015 to ₱17,656 million in 2016. The increase was primarily due to higher manpower costs, advertising and promotions expenses, distribution costs and amortization of containers costs. Distribution and manpower costs increased by 9.4% from ₱6,600 million in 2015 to ₱7,219 million in 2016 driven by higher volumes and salary increases. Advertising and promotions expenses increased by 8.4% from ₱2,820 million in 2015 to ₱3,056 million in 2016 driven by driven by implementation of new marketing campaigns, consumer and outlet promotions and trade programs in support of volume growth. We amortize deferred containers costs over the estimated useful life of two to ten years.

Spirits

Selling and administrative expenses in our spirits segment decreased by 1.2% from ₱3,814 million in 2015 to ₱3,769 million in 2016. The decrease was primarily due to lower contracted services, insurance, rent expense and taxes and licenses. In particular rent decreased by 51.8% from ₱110 million in 2015 to ₱53 million in 2016 due to the reduction of contracted external warehouses, partially offset by an increase in advertising and promotions expenses by 5.9% from ₱829 million in 2015 to ₱878 million in 2016 to support volume improvement of core brands.

Food

Selling and administrative expenses in our food segment increased by 10.6% from ₱15,107 million in 2015 to ₱16,703 million in 2016. This was primarily due to increase in advertising and promotions, manpower and logistics costs. Advertising and promotions expenses increased by 27.5% from ₱1,657 million in 2015 to ₱2,112 million in 2016 in line with the food segment's thrust of growing its branded value-added products through increased marketing and brand-building campaigns, including support for new product launches. Logistics costs, which include warehouse rental, hauling, trucking and related services, increased by 17.6% from ₱6,694 million in 2015 to ₱7,875 million in 2016 with our efforts to expand distribution coverage and improve customer servicing, particularly in general trade and VisMin region.

Interest Expense and Other Financing Charges

Our combined interest expense and other financing charges decreased by 7.5% from ₱3,472 million in 2015 to ₱3,212 million in 2016. This decrease was primarily due to the full payment by the food segment in December 2015 of its matured five-year corporate notes in the aggregate principal amount of ₱4,500 million net of the increase in interest expense due to the interest and surcharges of IBI's 2010 income tax assessment which was accrued in 2016.

Interest Income

Our combined interest income increased by 8.3% from ₱472 million in 2015 to ₱511 million in 2016. This increase was primarily due to higher money market placements of both domestic and international operations of the beer and NAB segment, partially offset by a decline in the average level of money market placements of the food segment.

Equity in Net Losses of Joint Ventures

Our combined equity in net losses of joint ventures decreased by 11.8% from ₱110 million in 2015 to ₱97 million in 2016 primarily due to better operating results in 2016 of the joint venture company under our spirits segment.

Gain on Sale of Investments and Property and Equipment

Our combined gain on sale of investments and property and equipment decreased by 36.1% from ₱233 million in 2015 to ₱149 million in 2016. This decrease was primarily due to the one-time gain on sale of an asset in 2015 by the spirits segment, which was higher than the one-time gain on the disposal of an investment property of the food segment in 2016.

Other Charges - Net

Our combined other charges - net decreased by 81.4% from ₱1,582 million in 2015 to ₱295 million in 2016. This decrease was primarily due to the recognition of impairment loss on the fixed asset of a foreign subsidiary of our beer and NAB segment in 2015.

Net Income before Income Tax

As a result of the foregoing, our combined net income before income tax increased by 29.2% from ₱26,393 million in 2015 to ₱34,099 million in 2016.

Income Tax Expense

Our income tax expense increased by 18.2% from ₱8,539 million in 2015 to ₱10,097 million in 2016. This increase was primarily due to the increase in taxable income of our food, and beer and NAB segments.

Net Income

As a result of the foregoing, our combined net income increased by 34.4% from ₱17,854 million in 2015 to ₱24,002 million in 2016. Net income of the beer and NAB segment increased by 30.6% from ₱13,524 million in 2015 to ₱17,665 million in 2016, and net income of the food segment increased by 25.8% from ₱4,752 million in 2015 to ₱5,976 million in 2016. Net income of the spirits segment improved from a net loss of ₱422 million in 2015 to net income of ₱361 million in 2016.

The Beer and NAB and Food segments contributed 73.6% and 24.9%, respectively. The Spirit segment was also able to turn around performance and swung to a net income in 2016, which resulted in a contribution of 1.5% of the total net income.

Net Income after Tax and Non-controlling Interests

As a result of the foregoing, our combined net income after tax and non-controlling interests increased by 34.2% from ₱17,334 million in 2015 to ₱23,267 million in 2016. Net income after tax and non-controlling interests of the beer and NAB segment increased by 29.9% from ₱13,257 million in 2015 to ₱17,224 million in 2016, of which ₱8,812 million is attributable to SMFB. Net income after tax and non-controlling interests of the food segment increased by 26.3% from ₱4,499 million in 2015 to ₱5,682 million in 2016. Net loss after tax and non-controlling interests of the spirits segment improved from ₱422 million in 2015 to net income after tax and non-controlling interests of ₱361 million in 2016, of which ₱245 million is attributable to SMFB.

Earnings Before Income Tax, Depreciation and Amortization

Our combined Adjusted EBITDA for the years ended December 31, 2015, 2016, and 2017 amounted to ₱37,486 million, ₱44,795 million, and ₱49,937 million, respectively, while our consolidated Adjusted EBITDA for the six months ended June 30, 2017 and 2018 amounted to ₱22,583 million and ₱26,569 million, respectively.

Beer and NAB

The Adjusted EBITDA for the beer and NAB segment for the years ended December 31, 2015, 2016, and 2017 amounted to ₱25,685 million, ₱31,345 million, and ₱34,932 million, while the Adjusted EBITDA for the beer and NAB segment for the six months ended June 30, 2017 and 2018 amounted to ₱15,717 million and ₱18,975 million, respectively.

Spirits

The Adjusted EBITDA for the spirits segment for the years ended December 31, 2015, 2016, and 2017 amounted to ₱1,282 million, ₱1,514 million, and ₱1,830 million, while the Adjusted EBITDA for the spirits segment for the six months ended June 30, 2017 and 2018 amounted to ₱853 million and ₱1,185 million, respectively.

Food

The Adjusted EBITDA for the food segment for the years ended December 31, 2015, 2016, and 2017 amounted to ₱10,519 million, ₱11,936 million, and ₱13,175 million, while the Adjusted EBITDA for the food segment for the six months ended June 30, 2017 and 2018 amounted to ₱6,013 million and ₱6,409 million, respectively.

Liquidity and Capital Resources

Overview

Our principal source of liquidity is our cash flows from our operations and borrowings. During the years 2015, 2016 and 2017, our cash flows from operations have been sufficient to provide cash for our operations and capital expenditures. Our borrowings in 2015, 2016 and 2017 have been primarily used to refinance our existing indebtedness, resulting in a net cash flow used in financing activities.

Our principal requirements for liquidity are for purchases of raw materials and payment of other operating expenses, our investments in production equipment, payment of cash dividends and for other working capital requirements.

Our cash flows are primarily from the operations of our food and beverage businesses and we expect that our operating cash flow will continue to be sufficient to fund our operating expenses for the foreseeable future. We also maintain long and short term credit facilities with various financial institutions, which can support any temporary liquidity requirements and/or partially finance any capital expenditures that we may have in the future.

Cash Flows

The following discussion of our cash flows for 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018 should be read in conjunction with the statements of cash flows included in the Audited Combined Financial Statements and the June 30, 2018 Unaudited Consolidated Interim Financial Statements.

	For the years ended December 31,				For the six-month period ended June 30,		
	2015	2016	2017		2017	2018	
	₱			US$(1)	₱		US$(1)
	(in millions)						
Net cash flows provided by operating activities	₱31,798	₱29,296	₱40,898	US$ 764	₱21,589	₱19,096	US$357
Net cash flows used in investing activities	(8,383)	(13,483)	(20,410)	(381)	(8,274)	(10,128)	(189)
Net cash flows used in financing activities	(22,721)	(11,343)	(15,307)	(286)	(11,579)	(9,642)	(180)
Effect of exchange rate changes on cash and cash equivalents	204	282	27	—	99	582	11
Net increase (decrease) in cash and cash equivalents	898	4,752	5,208	97	1,835	(92)	(1)
Cash and cash equivalents at beginning of year/period	24,682	25,580	30,332	567	30,332	35,540	664
Cash and cash equivalents at end of year/period	₱25,580	₱30,332	₱35,540	US$664	₱32,167	₱35,448	US$663

Note:

(1) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

Net cash flow provided by operating activities

Net cash flows provided by operating activities were ₱19,096 million for the six months ended June 30, 2018. Our income before income tax for this period was ₱21,864 million. Cash generated from operations (after adjusting for, among other things, depreciation and amortization, and working capital changes) was ₱26,686 million. We generated cash from interest received of ₱531 million, paid income taxes of ₱6,229 million, paid interest of ₱1,287 million and paid contributions of ₱605 million.

Net cash flows provided by operating activities were ₱40,898 million in 2017. Our income before income tax for this period was ₱39,861 million. Cash generated from operations (after adjusting for, among other things, depreciation and amortization, and working capital changes) was ₱54,711 million. We generated cash from interest received of ₱630 million, paid income taxes of ₱10,783 million, paid interest of ₱2,647 million and paid contributions of ₱1,013 million.

Net cash flows provided by operating activities were ₱29,296 million in 2016. Our income before income tax for this period was ₱34,099 million. Cash generated from operations (after adjusting for, among other things, depreciation and amortization and working capital changes) was ₱44,059 million. We generated cash from interest received of ₱480 million, paid income taxes of ₱9,710 million, paid interest of ₱3,176 million and paid contributions of ₱2,357 million.

Net cash flows provided by operating activities were ₱31,798 million in 2015. Our income before income tax for this period was ₱26,393 million. Cash generated from operations (after adjusting for, among other things, depreciation and amortization and working capital changes) was ₱44,188 million. We generated cash from interest received of ₱434 million, paid income taxes of ₱7,932 million, paid interest of ₱3,416 million and paid contributions of ₱1,476 million.

Net cash flows used in investing activities

For the six months ended June 30, 2018, our net cash flows used for investing activities were ₱10,128 million. The cash outflow primarily consisted of our payments for capital expenditure of ₱5,254 million and acquisition of biological assets, intangible assets and other noncurrent assets, including containers, of ₱4,887 million, partially offset by proceeds from the sale of investments and property and equipment of ₱13 million.

In 2017, our net cash flows used for investing activities were ₱20,410 million. The cash outflow primarily consisted of our payments for capital expenditure of ₱12,959 million and acquisition of biological assets, intangible assets and other noncurrent assets, including containers, of ₱7,758 million, partially offset by proceeds from the sale of investments and property and equipment of ₱307 million.

In 2016, our net cash flows used for investing activities were ₱13,483 million. The cash outflow primarily consisted of our payments for capital expenditure of ₱8,071 million and biological assets, intangible assets and other noncurrent assets, including containers, of ₱5,798 million, partially offset by proceeds from the sale of investments and property and equipment of ₱386 million.

In 2015, our net cash flows used for investing activities were ₱8,383 million. The cash outflow primarily consisted of our payments for capital expenditure of ₱4,391 million and biological assets, intangible assets and other noncurrent assets, including containers, of ₱4,247 million, partially offset by proceeds from the sale of investments and property and equipment of ₱255 million.

Net cash flows used in financing activities

Net cash flows used for financing activities were ₱9,642 million for the six months ended June 30, 2018. This amount consisted primarily of payment of short-term and long-term borrowings totaling to ₱81,783 million, partially offset by net proceeds from short-term borrowings of ₱80,410 million. Cash dividend and share issuance cost amounting to ₱7,577 million and ₱692 million, respectively, were paid during the period.

Net cash flows used for financing activities were ₱15,307 million in 2017. This amount consisted primarily of combined cash dividends of ₱13,146 million paid during the period by the entities to their respective shareholders and payment of long-term borrowings of ₱3,115 million, partially offset by net proceeds from short-term borrowings of ₱816 million.

Net cash flows used for financing activities were ₱11,343 million in 2016. This amount consisted primarily of combined cash dividends of ₱12,294 million paid during the period by the entities to their respective shareholders, partially offset by net proceeds from short-term borrowings of ₱1,134 million.

Net cash flows used for financing activities were ₱22,721 million in 2015. This amount consisted primarily of combined cash dividends of ₱11,776 million paid during the period by the entities to their respective shareholders, payment of long-term and short-term borrowings of ₱4,549 million and ₱6,851 million, respectively, redemption of ₱15,000 million outstanding preferred shares, partially offset by proceeds from the issuance of perpetual series "2" preferred shares of ₱14,885 million.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of June 30, 2018:

	Total Carrying Amount	Total Contractual Cash Flow*	1 Year of Less	1 to 2 Years	2 to 5 Years	Over 5 Years
Notes payable	₱12,625	₱12,669	₱12,669	₱ —	₱ —	₱ —
Long-term debt	34,746	40,033	14,836	1,300	21,244	2,653
Total	₱47,371	₱52,702	₱27,505	₱1,300	₱21,244	₱2,653

* *Includes principal amount and interest expense.*

Capital Expenditures

We have made significant capital expenditures to improve operations, reduce costs and maintain performance of major equipment.

The table below set out the capital expenditures in 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018 of the beer and NAB, spirits, and food segments. Our beer and NAB, spirits, and food segments have historically sourced funding for their capital expenditures from internally-generated funds.

	For the years ended December 31,			For the six-month period ended June 30,	
	2015	2016	2017	2017	2018
Beer and NAB	₱1,026	₱1,218	₱1,747	₱472	₱1,241
Spirits	233	382	217	68	121
Food	3,128	6,467	10,890	5,001	3,888
Total	₱4,387	₱8,067	₱12,854	₱5,541	₱5,250

Capital expenditures were primarily attributable to the expansion projects of our food segment such as the construction of production facilities for poultry, processed meats, feeds and flour milling to increase production capabilities and improve operational efficiencies. Other capital expenditures pertain to repairs and maintenance for the existing production facilities of the Group.

Expansion projects of the Food segment amounted to ₱2,318 million, ₱5,529 million, ₱9,548 million and ₱3,316 million in 2015, 2016, 2017 and as of June 30, 2018, respectively. Capital expenditures relating to maintenance pertain to replacement and major repairs of old equipment and purchase of administrative and IT related assets.

The capital expenditure of the Beer and NAB segment is primarily for maintenance of its production facilities. In 2017, we modified San Fernando's packaging line to a multi-product line costing ₱238 million. While in 2018, additional packaging line in Sta. Rosa bottling plant and the expansion project in San Fernando which are being constructed amount to ₱293 million and ₱93 million, respectively.

The capital expenditures of the Spirits segment pertain mostly to upgrading, repairs and replacement of bottling and distillery equipment for operational efficiencies, purchase of oak barrels for alcohol ageing process, purchase of administrative and IT related equipment and rehabilitation and renovation of buildings.

Indebtedness

In the six months ended June 30, 2018, our principal source of liquidity was cash from operations.

In the past, we met our working capital, capital expenditures, dividend payments and investment requirements primarily from cash flows from operating activities, and expect to continue to do so in 2018. We have, from time to time, accessed the debt market to fund working capital, expansion programs and other business opportunities, and may do so in 2018, depending on our financing needs and the market conditions. For details of our long-term debt, see Note 19 of our Audited Combined Financial Statements.

Off-Balance Sheet Arrangements

As of June 30, 2018, there were no off-balance sheet arrangements or obligations that were likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Quantitative and Qualitative Disclosure of Market Risk

Our beer and NAB, spirits, and food segments are exposed to various types of market risks in the ordinary course of business, including foreign currency risk, commodity price risk, interest rate risk, liquidity risk and credit risk.

Foreign Currency Risk

Our foreign currency exchange rate risk exposure results primarily from business transactions denominated in foreign currencies. We enter into foreign currency hedges using non-derivative instruments to manage foreign currency risk exposure and use a combination of natural hedges, with U.S. dollar revenue from exports providing a partial hedge against U.S. dollar-denominated raw material expenses and/or purchase foreign currencies at spot rates where necessary to address short-term imbalances from importations, revenue and expense transactions and other foreign currency denominated obligations. Authorized derivative instruments include currency forwards, currency swaps and currency options. For more information regarding our exchange rate risk exposure and related derivative instruments, see notes 34 and 35 to our Audited Combined Financial Statements included elsewhere in this Prospectus.

Commodity Price Risk

Our commodity price risk exposure results primarily from the use of commodities as raw materials and fuel in the production processes of our beer and NAB, spirits, and food segments. Through SMC, we enter into various commodity derivative transactions to manage our commodity price risk exposure on strategic commodities, including swaps, futures, forwards and options. We enter into commodity swaps, futures, forwards and options primarily to manage exposure to volatility in prices of certain commodities such as soybean meal and wheat. The prices of the commodity forwards are generally fixed through direct agreements with suppliers or by reference to a commodity price index. For more information regarding our commodity price risk exposure and related derivative instruments, see notes 34 and 35 to our Audited Combined Financial Statements included elsewhere in this Prospectus.

Interest Rate Risk

Our exposure to changes in interest rates primarily relates to long-term borrowings of our various business segments. We manage our interest cost by using a combination of fixed rate and variable rate debt instruments. We monitor prevailing market-based interest rates and aim to ensure that the interest rates charged on our borrowings are optimal and benchmarked against the interest rates charged by other banks.

Liquidity Risk

We are exposed to the possibility that adverse changes in the business environment or our operations could result in substantially higher working capital requirements and consequently, a difficulty in financing additional working capital. We manage our liquidity risk by monitoring our cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital.

Credit Risk

Our exposure to credit risk primarily relates to our trade and other receivables. Our beer and NAB, spirits, and food segments have no significant concentration of credit risk since they deal with a large number of trade customers. In order to minimize their credit risk, our businesses measure, monitor and manage the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures.

The information below has been derived in part from publicly available Government sources, market data providers and other independent third party sources. In addition, this section and other sections of the Prospectus contain information extracted from a commissioned report prepared by GlobalData. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts, market research and the underlying economic assumptions relied upon therein, while believed to be reliable, have not been independently verified, and none of us nor the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters and Financial Adviser make any representation as to the accuracy of that information. Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

MACROECONOMIC OVERVIEW

The Philippines is one of the most attractive markets in Asia, expected to sustain its strong momentum to remain the fastest growing economy in the Southeast Asia from 2017 to 2022F. Household consumption expenditure contributes to 73.5% of GDP, and is well supported by a sizeable population which is the fastest growing in the region. Consumption driven economy is well supported by favorable demographic trends. Foreign direct investment inflows have been increasing and this is reflective of investors' confidence in the Philippines given the country's favorable macroeconomic fundamentals.

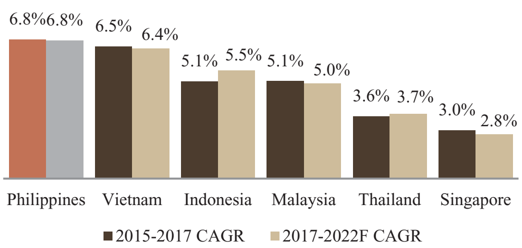
Fastest growing economy in the region

The Philippines' nominal GDP reached US$295 billion in 2017, implying a CAGR of 8.8% from 2015 to 2017. Real GDP also posted robust growth of 6.8% CAGR during the same period, driven by strong consumer spending which, in turn, was fueled by sustained overseas income remittances and earnings from business process outsourcing services, as well as low unemployment. Foreign direct investment inflows have been increasing and this is reflective of investors' confidence on the Philippines given the country's favorable macroeconomic fundamentals.

The Philippine economy is expected to sustain its growth momentum and remain the fastest growing economy in Southeast Asia from 2017 to 2022F. Real and nominal GDP are projected to expand by 6.8% and 9.2%, respectively, during this period, according to GlobalData. Underlying drivers for robust growth, such as increasing propensity for consumption and continued population growth with favorable demographics, remain compelling. Growth will be further boosted by increases in private construction and infrastructure spending as well as expansion in the country's manufacturing and services sectors. Increased overall economic activity is expected to create more jobs and income opportunities in the country. GlobalData expects employment statistics to further improve with more than four million people expected to join the workforce from 2017 to 2022F, and unemployment rate to decrease further from 6.3% in 2017 to 5.5% in 2022F. Regions outside Greater Manila are expected to benefit from development activities such as infrastructure spending and growth of business process outsourcing.

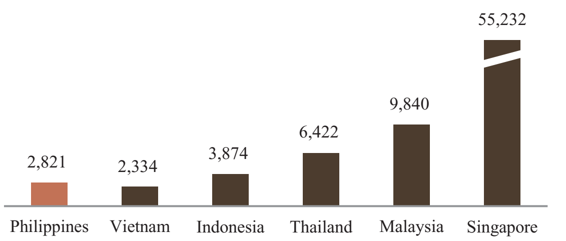
Furthermore, on a per capita basis, nominal GDP per capita in the Philippines has been increasing at a CAGR of 7.0% from 2015 to 2017, reaching US$2,821 in 2017. As the economy continues to grow, nominal per capita GDP is projected to continue to grow at 7.5% from 2017 to 2022F and this will be further driven by consumer spending in the country.

Real GDP growth (%)



Source: GlobalData

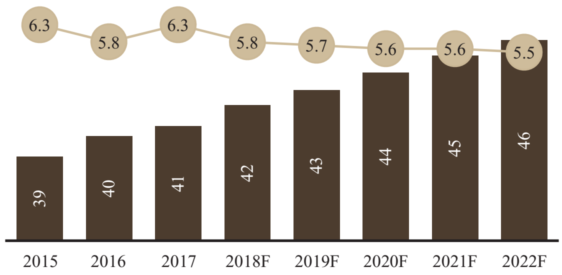
GDP per Capita (US$), 2017



1. Using the following exchange rates: 53.50 PHP/USD, 22,713.06 VND/USD, 13,380.87 IDR/USD, 33.94 THB/USD, 4.30 MY/USD, 1.38 SGD/USD

Source: GlobalData

Employed people (million) and unemployment rate (%)



Source: GlobalData

Differences in economic and consumption characteristics across the country

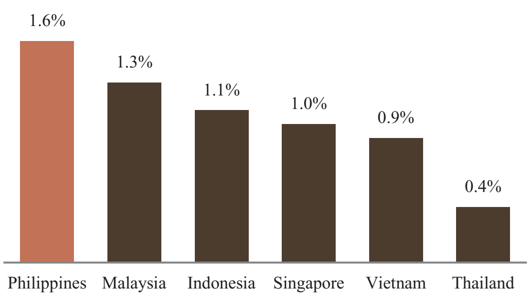
Luzon including Greater Manila, accounted for 72.2% of the Philippine's GDP and 56.5% of the population in 2017, while the Visayas and Mindanao region accounted for 27.8% and 43.5% of GDP and population respectively, reflecting differences and disparities between the two regions. In 2015 to 2017, Luzon including Greater Manila, experienced a GDP growth of 8.5%, while the Visayas and Mindanao region experienced a GDP growth of 9.7% in the same period. According to GlobalData, Greater Manila will continue to be a lucrative market with higher levels of income driving growth of premium and specialized products. Luzon is also expected to record rapid economic growth in the next few years, driven by government plans to unleash the potential of Northern and Central Luzon by improving infrastructure, and private sector initiatives. Rising employment rates will also increase purchasing power for these regions.

The Philippines is poised to benefit as development spreads to regions outside Greater Manila, particularly the rest of Luzon Visayas, and Mindanao. Visayas and Mindanao, which are comparatively less wealthy regions, present abundant opportunities for growth and development. Robust economic growth is expected to be supported by a growing tourism and service industry as well as government initiatives to eradicate poverty and improve infrastructure. Furthermore, GlobalData expects the urban population to expand by more than four million in the coming years to account for 44.4% of the population.

A large, youthful and growing population

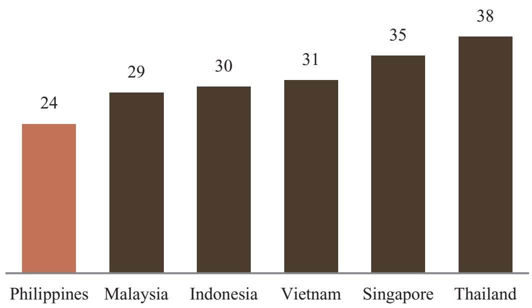
The Philippines is a large market with a population of 105 million as of 2017 according to the Philippine Statistics Authority. This is the second largest population in Southeast Asia, next to Indonesia, and is also the fastest growing. The Philippine market is relatively young, with a median age of 24 years, which is the lowest amongst the Southeast Asian countries. From a gender split, the population is quite evenly distributed: 50.2% are male and 49.8% are female.

2017-2022F Population growth (%)



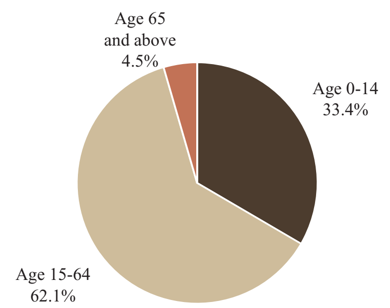
Source: GlobalData

Median age (years), 2017



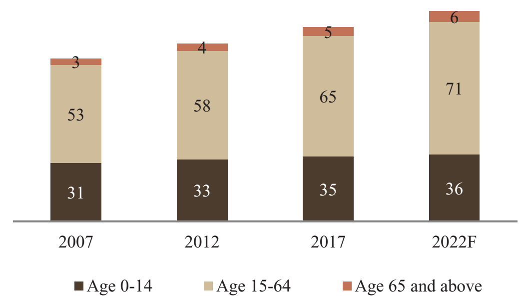
Source: GlobalData

Population by age group, 2017 (%)



Source: GlobalData

Population by age group (million)

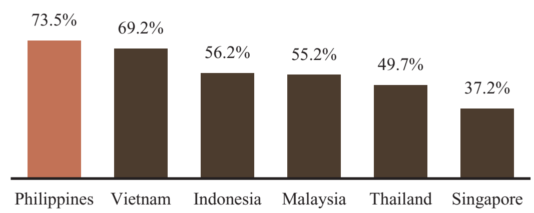


Source: GlobalData

Consumption-focused economy

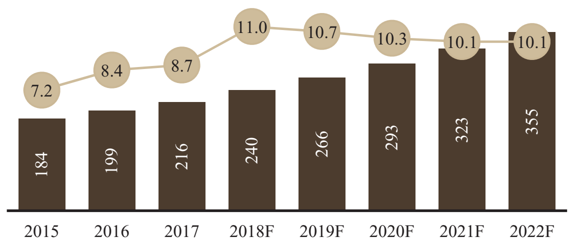
The Philippine economy remains consumption-driven with household consumption expenditures contributing to 73.5% of nominal GDP. This share ranks notably higher compared to other Southeast Asian countries such as Thailand and Malaysia, where household consumption contributes only 49.7% and 55.2%, respectively. Consumer spending in the Philippines is expected to strengthen as a result of sustained high economic growth and favorable demographics, as evident through GlobalData's forecasted growth for nominal household consumption expenditure of 10.4% CAGR in 2017 to 2022F. Continued growth in consumption is expected to be a key driver for growth for industries such as food and beverages.

Household consumption expenditure as % of GDP, 2017



Source: GlobalData

Nominal household final consumption expenditure (US$ billion) and growth (%)



Source: GlobalData

Key Consumption Trends

Distribution of products in complex geography

The Philippines is composed of over 7,000 islands and has relatively underdeveloped infrastructure in some parts of Luzon, and the Visayas and Mindanao regions. These conditions make nationwide transportation and distribution of goods highly complex and expensive. This also creates a significant challenge to entry for potential new players in the market without an established distribution network. Furthermore, the lack of sufficient cold storage facilities create further obstacles for businesses and industries that have such requirements, such as dairy and fresh meats. A gradual improvement in infrastructure, supported by the government, along with an increase of modern trade outlets will widen the market and consumption growth of these products.

Demand for 'value for money' products

According to GlobalData, the majority of Filipinos in regions such as Davao earn minimum daily wages of ₱370.00 (US$6.92) compared to Metro Manila's ₱502.00 (US$9.38) per day outside of Metro Manila. Accordingly, large segment of the population is highly value-conscious and seeks affordable options that balance price with quality. This trend is evidenced by the high popularity of mainstream beer compared to premium options, and locally manufactured spirits compared to branded imported variants. Manufacturers are therefore offering products specifically targeting these consumers. For example, SMFB offers 'super saver' packs of meat cuts, and likewise carries value-for-money beer labels like *Gold Eagle* beer (which costs ₱25.00 (US$0.47) for a 320ml bottle) and *Red Horse* beer (which costs ₱78.00 (US$1.46) which has a stronger alcohol content).

Demand for variety

Consumers in the Philippines are looking for greater variety in their food and beverage products, seeking brands that provide them with new and exciting experiences. According to a GlobalData survey, 43% of respondents stated that they enjoy experimenting with new and unusual flavors in alcoholic beverages. This trend is further supported by a large youthful population base in the Philippines. Young consumers are generally variety-seekers and look for products that provide them with optimum sensory experiences. According to GlobalData, 44% of respondents within the age of 18 to 24 stated that flavor is very influential when choosing what alcoholic beverage to consume, as compared to only 17% for the 45 to 54 age group. To capture this trend, food and beverage manufacturers are developing new products with novel and experiential flavors as well as innovative packaging to appeal to these consumers.

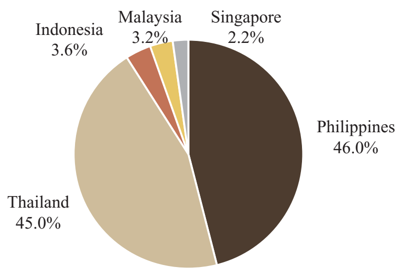
ALCOHOLIC BEVERAGE (BEER AND SPIRITS) INDUSTRY*

Market Overview and Outlook

The Southeast Asian market for alcoholic beverages stood at 6.1 billion liters in 2017, with the Philippines as the largest market, accounting for 46.0% of the total volume in the region. Strong economic growth leading to increasing disposable incomes and an overall willingness to spend has been an important driver and will continue to be key for growth. The Philippine's youthful population and established drinking culture are also expected to support this momentum. Based on a survey of GlobalData, 45.0% of respondents between the ages of 18 to 24, and 54.0% of respondents between the ages of 25-34, stated that they drink alcoholic beverages regularly. There is also a growing acceptance of women drinking socially, with 46.0% of surveyed female respondents in 2017 stating that they drink alcohol.

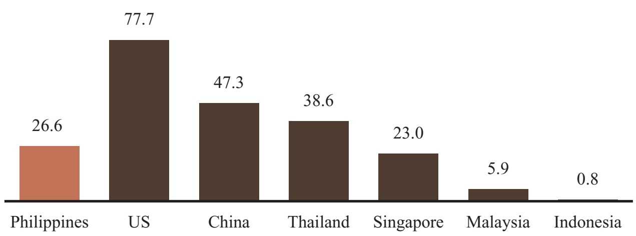
The alcoholic beverages market value in the Philippines grew at a 14.0% CAGR from 2015 to 2017, and is expected to grow at a CAGR of 7.3% from 2017 to 2022F. This growth potential is also supported when comparing the Philippine's significantly lower per capita consumption of alcoholic beverages against mature markets such as the US.

Southeast Asia alcoholic beverages market breakdown by volume (%), 2017



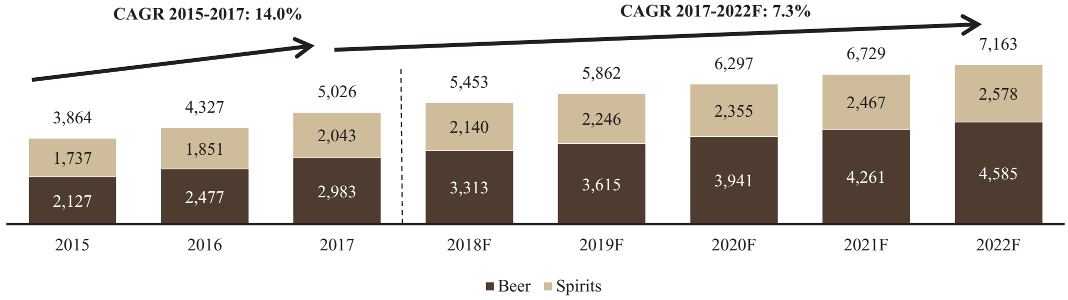
Source: GlobalData

Comparison of per capita consumption of alcoholic beverages (liters), 2017



Source: GlobalData

Philippines alcoholic beverages market value (US$ million)



Source: GlobalData

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* *As discussed in this section, the market includes two segments: off-trade, and on-trade.*

In the Philippine alcoholic beverages market, beer accounted for more than 71.7% of the total alcoholic beverage volume in 2017, with the balance distributed across different types of spirits, predominantly rum, gin, and brandy. Based on GlobalData, the top alcoholic beverage brands by volumes include *Red Horse, San Miguel Pale Pilsen,* Emperador, *Ginebra* and *San Mig Light*.

Key Market Trends

Increasing number of multi-beverage drinkers

An increasing number of consumers in the Philippines are drinking multiple types of alcoholic beverages instead of just one. As economic development and industry growth allow regional distributors to deliver a greater variety of products to consumers, the different product segments within the alcoholic beverages industry are expected to grow simultaneously. This trend presents an upside scenario for manufacturers such as GSMI and SMB, both of which are diversified in their product offerings, and are therefore well positioned to capture growth across multiple types of alcoholic beverages.

Youthful and affluent Filipinos seeking new and differentiated experiences

The large population of young people in the Philippines combined with their growing affluence and high willingness to spend makes young drinkers a key consumer base of the industry. Key producers are recognizing the importance and have been targeting this segment with new product launches and innovative promotional campaigns. For instance, SMB launched the first flavored beer in the market to target the younger segment and the brand has performed extraordinarily well since its launch in 2010. Marketing has also expanded beyond traditional platforms to reach into the digital space such as SMB's '*Game Tayo*' mobile app of mini games, as well as through pop culture such as sponsoring popular sports teams, as SMB had done with San Miguel Beermen basketball team.

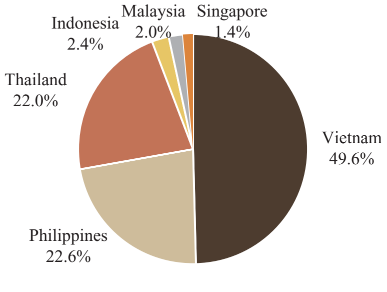
BEER INDUSTRY

Market Overview and Outlook

The Philippine beer market was valued at US$2,983 million in 2017. In terms of volume, this totaled 1,997 million liters, accounting for 22.6% of the Southeast Asian beer market. According to GlobalData, the Philippines has a relatively low per capita beer consumption when comparing to other mature markets such as the US, which implies potential for growth which will be supported by a strong increase in income levels. The value of the beer market is projected to grow at a CAGR of 9.0% for 2017 to 2022F, while volumes for the same period are expected to grow at a CAGR of 6.5%.

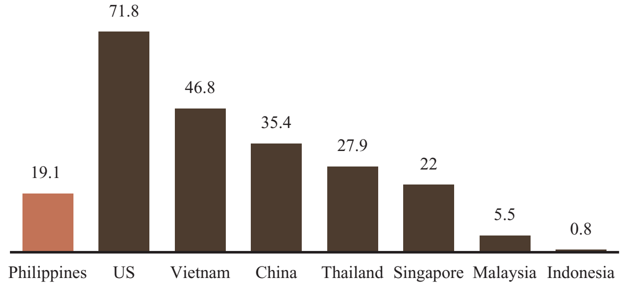
In view of the favorable market prospects, domestic and international beer players have announced plans to take advantage of beer market opportunities in the Philippines. In 2017, SMB – the largest beer producer in the country by volume – announced an expansion plan for a new plant. Similarly, Heineken International B.V. ABHP entered the Philippines through a joint venture with Asia Brewery Inc. in 2016 to capture market opportunities especially in the premium and mainstream segments.

Southeast Asia beer market breakdown by volume (%), 2017



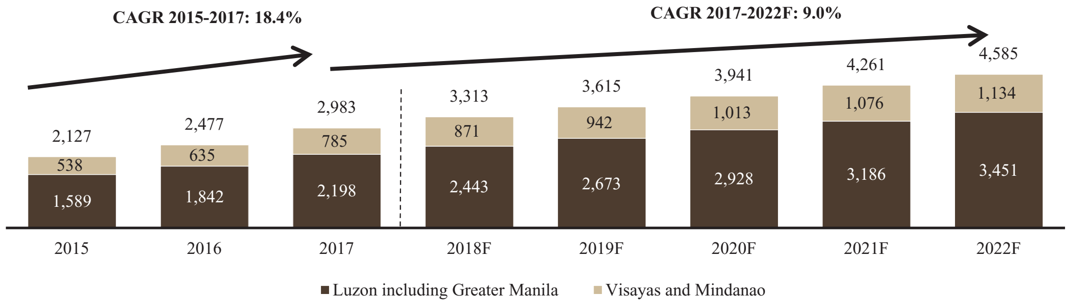
Source: GlobalData

Comparison of per capita consumption of beer (liters), 2017



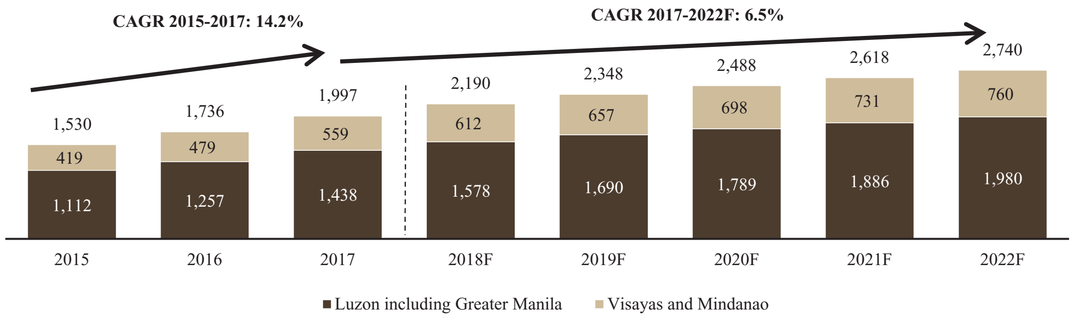
Source: GlobalData

Philippines beer market value (US$ million)



Source: GlobalData

Philippines beer market volume (million liters)

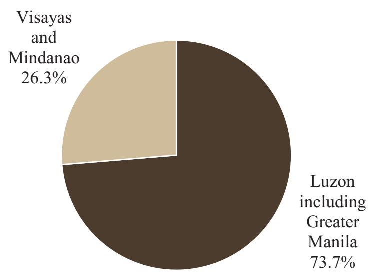


Source: GlobalData

Regional Breakdown

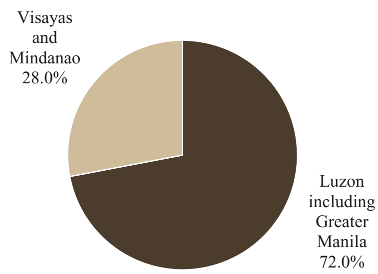
Regionally, the biggest consumer of beer is Luzon including Greater Manila, which accounts for 72.0% of the total volume in 2017. According to GlobalData, the region's volume is projected to grow at 6.6% CAGR from 2017 to 2022F. It is expected that beer consumption in 2022F within Luzon including Greater Manila, will reach 1,980 million liters. From a value perspective, the region accounted for US$2,198 million of the total market size in 2017 and is expected to grow at a CAGR of 9.4% from 2017 to 2022F. By 2022F, the value of the market size in Luzon including Greater Manila will reach US$3,451 million. Growth in the next few years will mainly be driven by improving economic prosperity in Greater Manila, Luzon's anticipated economic boom, and urbanization increasing opportunities for both on-trade and off-trade consumption.

Philippines beer market value breakdown by region (%), 2017



Source: GlobalData

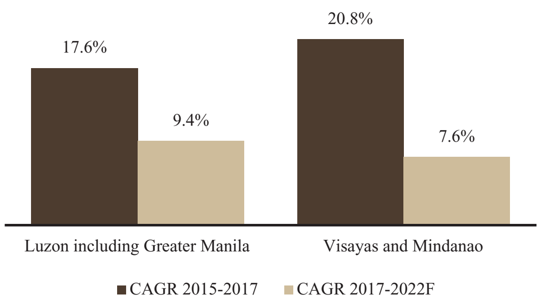
Philippines beer market volume breakdown by region (%), 2017



Source: GlobalData

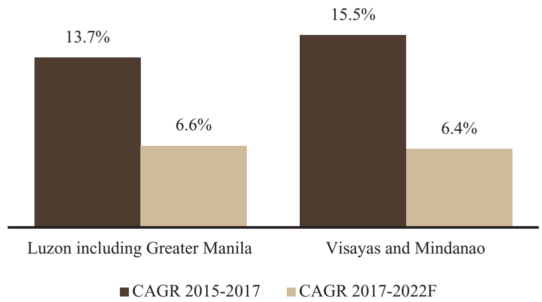
Visayas and Mindanao accounted for the remaining 28.0% of the market in terms of volume in 2017. According to GlobalData, the region is expected to grow at a higher rate of 6.4% over the same period on a volume basis. This will mainly be driven by economic improvements led by rising tourism and growing employment rates, both of which are supported by key government and private sector initiatives targeting West Visayas, and infrastructure programs in Mindanao, respectively. On a value basis, the regions account for 26.3% of the total market in 2017, implying a higher contribution of lower priced products. This is projected to grow at a CAGR of 7.6% from 2017 to 2022F, to reach US$1,134 million by 2022F.

Philippines beer market value CAGR by region (%)



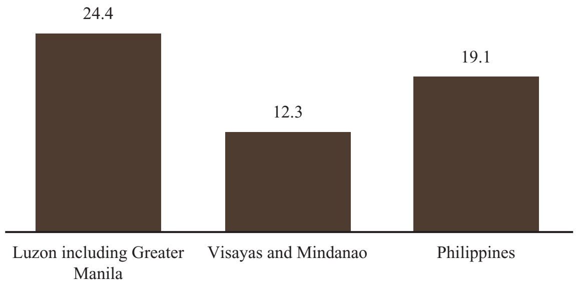
Source: GlobalData

Philippines beer market volume CAGR by region (%)



Source: GlobalData

Regional comparison of per capita consumption of beer (liters), 2017

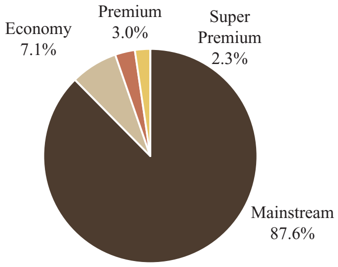


Source: GlobalData

Segment Breakdown

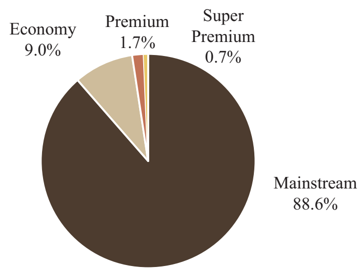
The beer industry in the Philippines can be broadly broken down into four specific segments: Economy (≤₱25.00 (US$0.47) per bottle), Mainstream (₱26.00 to ₱40.00 (US$0.49—0.75) per bottle), Premium (₱41.00 to ₱60.00 (US$0.77 – 1.12) per bottle), and Super Premium (>₱60.00 (US$1.12) per bottle). The Mainstream segment is the most dominant segment nationally, as well as across each region.

Philippines beer market value breakdown by segment (%), 2017



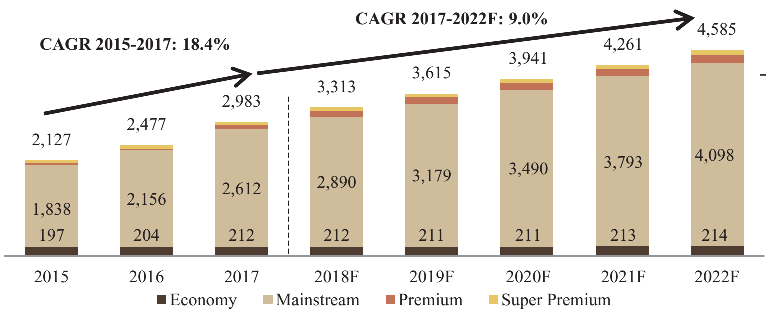
Source: GlobalData

Philippines beer market volume breakdown by segment (%), 2017



Source: GlobalData

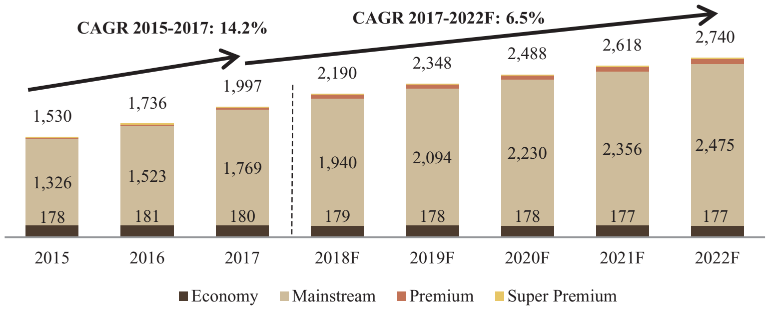
Philippines beer market value by segment (US$ million)



	CAGR 2015-2017	CAGR 2017-2022F
Economy	3.9%	0.2%
Mainstream	19.2%	9.4%
Premium	68.2%	14.9%
Super Premium	6.6%	6.2%

Source: GlobalData

Philippines beer market volume by segment (million liters)



	CAGR 2015-2017	CAGR 2017-2022F
Economy	0.6%	-0.3%
Mainstream	15.5%	6.9%
Premium	56.1%	15.6%
Super Premium	4.2%	5.4%

Source: GlobalData

The Economy segment accounted for around 9.0% of total sales volume in the Philippines in 2017, and 80.4% of the volume is consumed in the Visayas and Mindanao regions. Economy beer is widely available to the masses, usually sold in glass bottles in *mom* and *pop* stores, small supermarkets, and on-premise channels. Consumers in this segment are usually more value-conscious and hunt for bargains. Notable brands in the segment include *Gold Eagle* and Beer Na Beer. Decreasing volume in the coming years can be attributed to the growing economic prosperity as consumers begin moving towards beers in more expensive price segments.

The Mainstream segment accounted for 88.6% of total sales volume in 2017, and is expected to continue growing in the next few years. Growth will be driven by the growing economic prosperity across the Philippines, especially as consumers in the country begin to trade up. Leading brands in the segment include *Red Horse, San Miguel Pale Pilsen,* and *San Mig Light*.

The Premium segment represents 1.7% of total sales volume in 2017. Products in this segment are mainly targeted towards consumers in urban areas such as Greater Manila, which accounts for a significant portion of the market. Although the segment has a low base, the segment's strong growth in the next few years will be driven by urban consumers' increasing sophistication and evolving palate for high quality ingredients. This segment is expected to represent 3.9% of the market value by 2022F. The market is largely divided between products brewed locally such as *San Miguel Super Dry* and foreign brands such as Tiger and Heineken.

The Super Premium segment represents the remaining 0.7% of volume in the Philippines and is mainly represented by imported and local craft beers. Distribution is limited to confines of upscale hotels, bars, restaurants, and supermarkets mainly within Metro Manila, targeting urban consumers with relatively high purchasing power as well as tourists.

Distribution of Beer

Beer distribution covers large modern supermarkets, smaller supermarkets, convenience stores, gas stations, and *mom* and *pop* stores as well as on-premise channels such as bars, clubs, hotels, and restaurants. Currently, off-trade beer accounts for 58.4% of sales value in the Philippines. Brewers distribute to retailers mainly through a network of independent, exclusive dealers. In the provinces, these dealers work with a large number of sub-dealers and wholesalers.

The RGB enjoys widespread distribution across all channels as it is popular with consumers. For example, the leading brand *Red Horse* costs ₱78.00 (US$1.46) for a one-liter RGB with a ₱4.50 (US$0.08) deposit on the bottle when purchased from *mom* and *pop* stores. RGB can be used for multiple manufacturing cycles depending on the quality of the glass used to make the bottles.

Competitive Landscape

The Philippines' beer market is led by SMB with a leading market share of 92.7% of volume, distributed amongst its portfolio of beer brands, including, *Red Horse, San Miguel Pale Pilsen, San Mig Light*, and *San Miguel Flavored Beer*. AB Heineken Philippines Inc. is the second main player in the market with 6.6% market share, comprised of its products Colt 45, Beer na Beer, Tiger, Heineken, and Brew Kettle.

Market share (volume) by Company - Beer

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	San Miguel Brewery, Inc.	90.5%	91.5%	92.7%
2	AB Heineken Philippines Inc	-	7.6%	6.6%
3	Others	9.5%	0.9%	0.7%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

The top five leading beer brands account for over 90% of the market. *Red Horse* is the leading beer brand, accounting for nearly two-thirds of beer volume sold in 2017, followed by *San Miguel Pale Pilsen* and *San Mig Light*.

Market share (volume) by Brand - Beer

			Market share (%)		
Rank	**Brand**	**Company**	**2015**	**2016**	**2017**
1	Red Horse	San Miguel Brewery, Inc.	59.5%	61.1%	63.3%
2	San Miguel Pale Pilsen	San Miguel Brewery, Inc.	13.4%	13.4%	12.9%
3	San Mig Light	San Miguel Brewery, Inc.	7.9%	7.8%	7.5%
4	Gold Eagle	San Miguel Brewery, Inc.	7.5%	6.9%	6.4%
5	Colt 45	AB Heineken Philippines Inc	-	3.9%	3.1%
6	Beer Na Beer	AB Heineken Philippines Inc	-	3.5%	2.6%
7	San Miguel Flavored Beer	San Miguel Brewery, Inc.	1.2%	1.4%	1.7%
8	San Miguel Super Dry	San Miguel Brewery, Inc.	0.8%	0.7%	0.8%
9	Tiger	AB Heineken Philippines Inc	-	0.1%	0.4%
10	Others		9.7%	1.2%	1.3%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Demand for increased specialized variety such as light, flavored and non-traditional brews

Filipino consumers' openness for new and innovative beer flavors have led brewers to roll out innovative products that have novel ingredients or have low calorie content. The *San Mig Light* and *San Mig Zero* are variants targeting consumers' unique and less filling experiences. SMB also launched *San Miguel Flavored Beer* in apple and lemon flavors which are claimed to be smooth, light, and sweet. This trend is particularly strong amongst youthful drinkers that value experience and seek specialized products, especially when socializing with friends. The *San Miguel Flavored Beer* has performed extraordinarily well since its launch in 2010.

Increasing interest for local and imported craft beer

Similarly, homegrown specialty craft brewers, as well as those from Europe and America, have started to launch products that offer new consumption experiences or claim to use natural, authentic, or regional ingredients. According to a GlobalData survey, 61.0% of respondents would like to see more craft offerings in the market. The craft movement is spreading across the various regions and according to the Philippine Craft Beer Community, there were 12 craft brew pubs and 24 micro/nano breweries as of 2017. However, these products currently only account for a small portion of the market.

Rising premiumization and indulgence

With evolving palates, consumers in the Philippines increasingly demand sophistication. These consumers are highly demanding and often seek specialized products for indulgent experiences as opposed to mundane mass offerings. This trend is driving manufacturers to offer unique and indulgent alcoholic beverages that cater to specific consumer expectations for exquisite experiences. SMFB targets said consumers with more sophisticated palates through its 'artfully-crafted' brands such as *San Miguel Premium All Malt, Cerveza Negra,* and *San Miguel Super Dry.*

Taxes and implications

Effective January 1, 2017, a unitary tax rate of ₱23.50 (US$0.44) per liter shall be imposed on all fermented liquors regardless of the net retail price (excluding the excise and value-added taxes) per liter of volume capacity, except those affected by the "no downward classification clause". The rate shall be increased by 4% every year thereafter, as prescribed by the provisions of Republic Act No. 10351, dated December 19, 2012, and RR No. 17-2012 dated December 31, 2012. Excise tax rate effective January 1, 2018 is ₱24.44 (US$0.46) per liter.

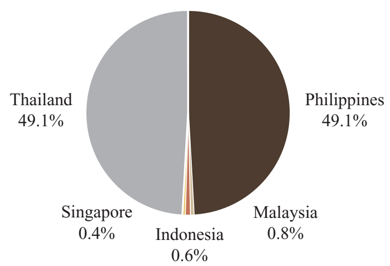
The Philippine government also plans to implement tax stamps for alcoholic beverages, including fermented alcohol drinks in 2019 to tackle the rising issue of counterfeiting and illicit liquor trading. The move is also intended to ensure collection of excise duties.

SPIRITS INDUSTRY

Market Overview and Outlook

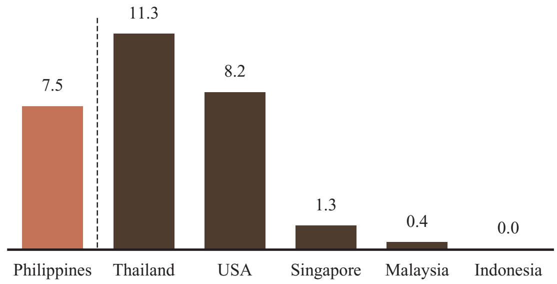
The Philippines spirits market reached a market size of US$2,043 million and 787 million liters in 2017, accounting for 49.1% of the entire Southeast Asian spirits market by volume. The Philippines ranks second in the region on a per capita consumption basis with 7.5 liters, second to Thailand. According to GlobalData, the Philippines spirits market is expected to continue growing in next five years, driven by favorable macroeconomic and consumption trends. The market's value and volume are expected to grow at 4.8% and 3.1% CAGR respectively for 2017-2022F.

Southeast Asia spirits market breakdown by volume (%), 2017



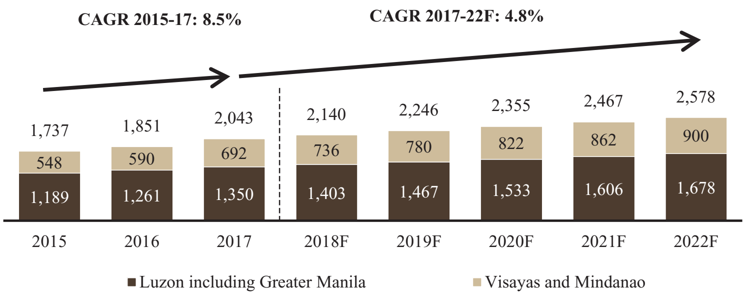
Source: GlobalData

Comparison of per capita consumption of spirits (liters), 2017



Source: GlobalData

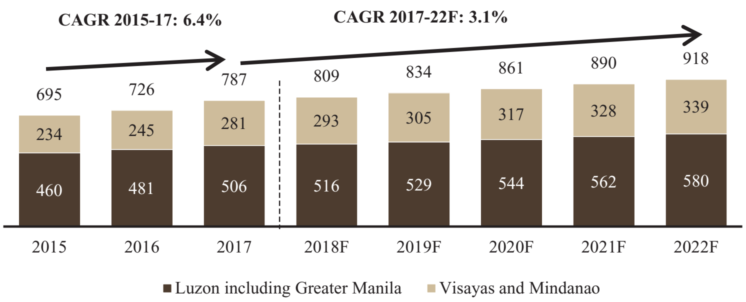
Philippines spirits market value by region (US$ million)



	CAGR 2015-2017	CAGR 2017-2022F
Luzon including Greater Manila	6.6%	4.4%
Visayas and Mindanao	12.4%	5.4%

Source: GlobalData

Philippines spirits market volume by region (million liters)



	CAGR 2015-2017	CAGR 2017-2022F
Luzon including Greater Manila	4.9%	2.7%
Visayas and Mindanao	9.5%	3.8%

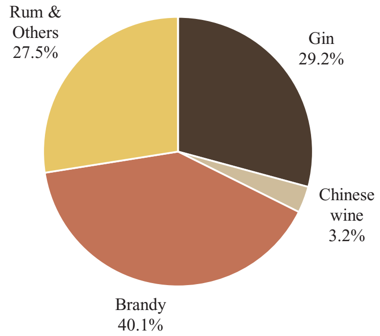
Source: GlobalData

In 2017, Luzon including Greater Manila, contributed to 66.1% and 64.3% of the total value and volume of spirits sold in the Philippines respectively. On a per capita consumption basis, Greater Manila is the highest with 10.0 liters, followed by Luzon with 8.2 liters, Mindanao with 6.4 liters, and Visayas with 5.8 liters. The higher consumption rates in Luzon including Greater Manila can be attributed to higher income levels and high urbanization. According to GlobalData, while Luzon including Greater Manila, are projected to remain as the two largest markets for spirits, consumption levels in Mindanao and Visayas are expected to increase at a faster pace. This is due to strong economic tailwinds, further bolstered by growing tourism and active government initiatives, including tax cuts and infrastructure development to increase regional prosperity.

Segment Breakdown

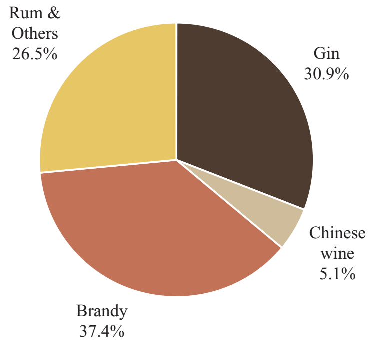
The Philippine's spirits industry is segmented by key categories, namely Gin, Chinese Wine, Brandy, and Rum & Others. Brandy is the largest segment on both value and volume basis, followed by gin. Gin accounted for 30.9% of the total market volume in 2017.

Philippines spirits market value breakdown by segment (%,), 2017



Source: GlobalData

Philippines spirits market volume breakdown by segment (%), 2017



Source: GlobalData

Philippines spirits market value by segment (US$ million)

	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	CAGR 2015-2017	CAGR 2017-2022F
Gin	462	525	597	657	711	763	813	861	13.7%	7.6%
Chinese wine	50	58	65	73	82	90	98	104	13.7%	9.9%
Brandy	780	798	819	810	819	834	857	883	2.5%	1.5%
Rum & Others	444	470	562	599	634	668	699	730	12.5%	5.4%
Total	1,737	1,851	2,043	2,140	2,246	2,355	2,467	2,578	8.5%	4.8%

Source: GlobalData

Philippines spirits market volume by segment (million liters)

	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	CAGR 2015-2017	CAGR 2017-2022F
Gin	201	221	243	262	278	293	308	321	10.1%	5.7%
Chinese wine	35	38	41	45	49	53	56	60	7.8%	8.0%
Brandy	287	290	295	285	283	283	286	291	1.3%	-0.3%
Rum & Others	172	177	209	217	225	232	240	246	10.1%	3.4%
Total	695	726	787	809	834	861	890	918	6.4%	3.1%

Source: GlobalData

Philippines spirits market per capita consumption by segment (liters), 2017

	Luzon including Greater Manila	Visayas and Mindanao	Philippines
Gin	3.9	0.3	2.3
Chinese wine	0.0	0.8	0.4
Brandy	4.3	0.9	2.8
Rum & others	0.4	4.1	2.0
Total	8.6	6.2	7.5

Source: GlobalData

Gin

The gin segment is mainly consumed in Luzon including Greater Manila, which accounts for 94.9% of market value in 2017. According to GlobalData, the gin market was valued at US$597 million in 2017 and is forecasted to have a 7.6% and 5.7% CAGR, in terms of value and volume, respectively, for the period 2017 to 2022F.

In addition to attractive consumption trends driving overall growth of the spirits market, gin segment growth is also supported by its popularity amongst Filipino consumers. As the Philippines gradually embrace the development of cocktails, gin manufacturers will benefit given gin's flexibility and compatibility with other flavors. Key examples include local cocktails such as '*shembot*', which combines gin with coffee, '*mountain gin*', which combines gin with Mountain Dew, and '*C4*', which combines gin and apple iced tea. As consumers gradually seek varied experiences with drinking gin, gin manufacturers will benefit from product launches that appeal to such preferences. This will be especially beneficial for local manufacturers, as Filipino consumers place greater trust in local products. In a GlobalData survey, as many as 36% of Filipinos responded that they associate high quality with food and drinks produced locally.

Chinese wine

According the GlobalData, the Chinese wine category accounts for 3.2% of the Spirits market value in the Philippines in 2017, and is expected to be the fastest growing segment in the spirits industry at 9.9% CAGR from 2017 to 2022F. Chinese wine is mainly consumed in Visayas and Mindanao, accounting for 95.0% of the market in 2017. Segment growth will continue to be driven by these regions in the next few years.

Brandy, and Rum & Others

The brandy segment is the largest spirits segment, accounting for 40.1% of the total market value. The segment recorded the slowest growth over the past three years, with a 2015 to 2017 CAGR of 2.5% for value and 1.3% for volume. According to GlobalData, this segment is projected to underperform gin and Chinese wine, only growing at a CAGR of 1.5% and -0.3% for value and volume, respectively, from 2017 to 2022F.

Rum accounts for 23.2% of the market in 2017 and was the fastest growing segment in the past three years. GSMI launched its *Anejo Gold Medium Rum* in 2017 to capitalize on the growing popularity of rum. However, growth in this segment is expected to be moderate going forward with a CAGR of 5.0% and 3.2%, by value and volume, respectively, from 2017 to 2022F.

Within this segment, there is strong demand for bold and new flavors, particularly amongst young consumers leading manufacturers to include ingredients such as spices. These consumers with highly impressionable nature tend to seek brands that they can identify with, opening opportunities for celebrities and influencers to launch new brands that their fans can relate to.

Distribution of spirits

Off-trade channels such as supermarkets, convenience stores, and *mom* and *pop* stores accounted for 66.3% of total value sales in 2017. Driven by a favorable drinking culture and social drinking emerging to be an important aspect for Filipinos' quality time with friends and family, on-trade sales is expected to show considerable growth over the next few years.

Competitive Landscape

Philippine's spirits market is dominated by a few key players across major categories such as brandy, gin, rum, and Chinese Wine. GSMI is one of the largest players, supported by its strong and diverse portfolio of products. Core brands such as *Ginebra* and *Vino Kulafu* continue to lead the gin and Chinese wine categories, respectively.

Filipino consumers, especially those that are value-conscious, are often skeptical towards premium options. This preference has resulted in the high popularity of cheaper, domestically manufactured spirits, such as those of GSMI.

On a brand level, the top three brands are Emperador Light, *Ginebra,* and Tanduay which are the dominant players in the brandy, gin, and rum segments, respectively. Over the past three years, Emperador Distillers' brands (i.e., Emperador Light and Emperador) have been gradually losing market share, while GSMI's brands (i.e., *Ginebra* and *Vino Kulafu*) have been gaining market share. Although Tanduay Distillers' brands have experienced relatively high growth, its brands remain to hold a smaller market share relative to the other two players.

Market share (volume) by Company - Spirits

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	Emperador Distillers, Inc.	39.3%	38.0%	34.8%
2	Ginebra San Miguel Inc.	30.3%	32.1%	33.0%
3	Tanduay Distillers, Inc.	22.3%	22.0%	24.3%
4	Others	8.1%	7.9%	7.9%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Market share (volume) by Brand - Spirits

			Market share (%)		
Rank	**Brand**	**Company**	**2015**	**2016**	**2017**
1	Emperador Light	Emperador Distillers, Inc.	34.4%	33.3%	30.4%
2	Ginebra	Ginebra San Miguel Inc.	26.8%	28.4%	29.2%
3	Tanduay	Tanduay Distillers, Inc.	16.9%	16.7%	18.5%
4	Tanduay Light	Tanduay Distillers, Inc.	3.7%	3.7%	4.0%
5	Vino Kulafu	Ginebra San Miguel Inc	2.9%	3.2%	3.3%
6	Emperador	Emperador Distillers, Inc.	3.6%	3.5%	3.2%
7	Other Tanduay brands	Tanduay Distillers, Inc.	1.7%	1.7%	1.7%
8	Other Emperador brands	Emperador Distillers, Inc.	1.4%	1.2%	1.2%
9	Other Ginebra San Miguel brands	Ginebra San Miguel Inc.	0.7%	0.5%	0.5%
10	Others	Others	7.9%	7.8%	8.0%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Gin

GSMI led the gin segment with a volume share of 95.3% in 2017, and had continued to gain market share from its competitors over the last few years. According to GlobalData, GSMI also benefited from consumers' shift away from brandy to other spirits like gin and rum in the last few years.

Market share (volume) by Company

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	Ginebra San Miguel Inc.	93.7%	94.3%	95.3%
2	Tanduay Distillers, Inc.	2.7%	2.6%	2.5%
3	Others	3.6%	3.1%	2.2%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Chinese wine

GSMI is the largest player in the Chinese wine segment with a market share of 64.5% by volume in 2017 through its *Vino Kulafu* brand. Other minor players in the industry include Uy Masuy Wine Factory Inc. and Destileria Limtuaco & Co. GSMI has been able to increase its market share substantially over the last few years, taking market share away from its competitors.

Market share (volume) by Company

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	Ginebra San Miguel Inc.	58.2%	62.0%	64.5%
2	Uy Masuy Wine Factory Inc.	13.6%	13.1%	13.0%
3	Destileria Limtuaco & Co., Inc.	15.0%	13.5%	12.4%
4	Others	13.1%	11.4%	10.1%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Demand for differentiated products with unique flavors and natural ingredients

Demand for differentiated drinking experiences has led spirits manufacturers to start creating new flavor notes and set up vibrant brand images to appeal to consumers. For example, GSMI launched *GSM Blue* which include flavored variants, such as *Mojito* and *Brown Coffee,* to target this demand. The *GSM Blue* brand has increased its market share in spirits from 0.28% in 2015, 0.30% in 2016, to 0.31% in 2017. Distillers have also appealed to health-conscious consumers by branding their products as “organic”, “natural”, or “pure”. This is evidenced by the creation of spirits such as Green Life’s 45% ABC brandy, claimed to be organically made with coconut flower.

Experience-driven spirits consumption

The spirits market is highly dependent on young consumers who seek out new and exciting experiences across regions. This has fueled the rise of a cocktail scene, leading to the popularity of new local cocktails such as *shembot*, *mountain gin,* and *C4*. Distillers are also making improvements to their formulations by adding sophisticated and sensory ingredients which justifies a higher price and makes the drinking experience more memorable. According to GlobalData, 57% of respondents in a survey were willing to pay extra for alcoholic beverages that they feel will bring extra levels of enjoyment and indulgence.

Taxes

Effective January 1, 2015, Republic Act No. 10351 imposed an ad valorem tax on distilled spirits equivalent to 20% of the net retail price (excluding the excise and value-added taxes) per proof and a specific tax of ₱20.00 (US$0.37) per proof liter. Specific tax rate effective January 1, 2016 is ₱20.80 (US$0.39) per proof liter, which shall be increased by 4% every year thereafter, as prescribed by the provisions of Revenue Regulations (RR) No. 17-2012 dated December 31, 2012. Specific tax rate effective January 1, 2018 is ₱22.50 (US$0.42) per proof liter.

The Philippine government also plans to implement tax stamps for alcoholic beverages, including distilled alcohol drinks in 2019 to tackle the rising issue of counterfeiting and illicit liquor trading. The move is also intended to ensure collection of excise duties.

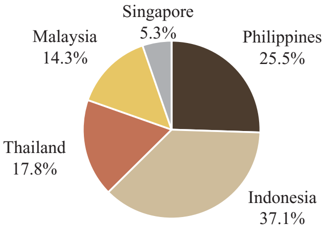
FOOD INDUSTRY*

Market Overview and Outlook

The Philippines food industry reached a market value of US$9,259 million in 2017, accounting for 25.5% of the Southeast Asian food industry. According to GlobalData, the industry is expected to grow to US$13,127 million by 2022F, at a CAGR of 7.2%. Several factors, including robust economic growth, a thriving tourism sector, a large youthful population, and the expansion of large retail chains are contributing to the growth of the industry. This has led food manufacturers to expand their operations and product portfolio in the Philippines. For example, SMFB, which operates in the fastest growing segments of the food industry (particularly, branded processed meat, dairy, and protein), expanded its portfolio with new products such as *Magnolia Chicken 3-Way* and *Purefoods Pulled Pork BBQ*.

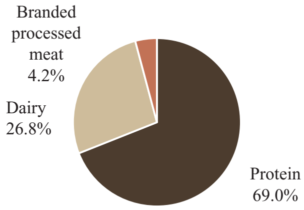
** As used in this section, the term “food” includes branded and processed meat, dairy, protein. “Dairy” includes milk, cheese, butter and spreadable fats, and ice cream. “Protein” includes poultry and fresh meat.*

Southeast Asia food market breakdown by value (%), 2017



Source: GlobalData

Philippines food market breakdown by value (%), 2017



Source: GlobalData

As discussed in this section, the market includes off-trade segment only.

Philippines food market value by segment (US$ million)

	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	CAGR 2015-2017	CAGR 2017-2022F
Branded processed meat	331	356	385	419	455	493	530	573	8.0%	8.3%
Dairy	2,240	2,364	2,485	2,587	2,712	2,842	2,968	3,115	5.3%	4.6%
Protein	5,300	5,814	6,388	6,951	7,528	8,149	8,745	9,438	9.8%	8.1%
Total food	7,870	8,534	9,259	9,957	10,695	11,484	12,244	13,127	8.5%	7.2%
Animal nutrition and health	1,761	1,890	2,027	2,204	2,399	2,608	2,826	3,072	7.3%	8.7%
Total	9,630	10,424	11,286	12,161	13,094	14,092	15,069	16,199	8.3%	7.5%

Source: GlobalData

SMFB's overall food market share, which includes branded processed meat, dairy, protein, and animal feeds, was at 21.7% in 2017.

Distribution of Food

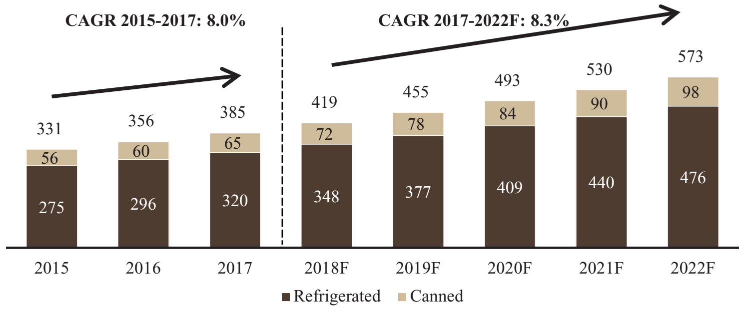
The majority of food industry players in the Philippines distribute their products predominantly through traditional distribution channels such as in wet markets, *mom* and *pop* stores, small grocery stores, wholesalers, dealers, and neighborhood butchers and bakeries. However, modern trade has been rising in regions such as Luzon including Greater Manila, and more modern distribution outlets have been growing significantly in recent years, such as hypermarts or supermarkets, convenience stores or grocery stores. The continued development of the modern trade network, along with cold chain infrastructure will be important in driving consumption in other regions. Another key distribution channel for food players is foodservice, which includes restaurants, hotels, and other food manufacturers or catering companies. Some of the major food players in the Philippines also operate exclusive branded food retail outlets. For example, SMFB operates around 1,200 outlets across the Philippines that offer its *Magnolia* branded products.

BRANDED PROCESSED MEAT INDUSTRY

Market Overview and Outlook

The branded processed meat industry was valued at US$385 million in 2017, of which refrigerated products accounted for 83.0%, while canned products accounted for 17.0% of the total market. According to GlobalData, the refrigerated and canned segments of the industry are expected to grow consistently with each other, mainly driven by emerging demographic and consumption trends such as demand for convenience and increased availability.

Philippines branded processed meat market value by segment (US$ million)

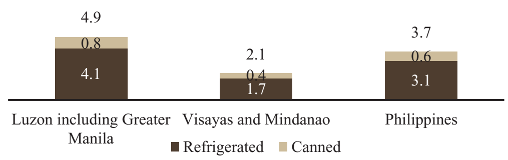


	CAGR 2015-2017	CAGR 2017-2022F
Refrigerated	7.9%	8.3%
Canned	8.5%	8.4%

Source: GlobalData

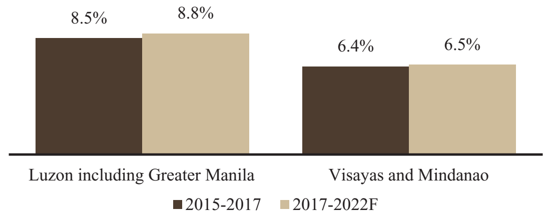
Regionally, Luzon including Greater Manila, was the biggest consumer of branded processed meat, which accounted for 74.9% of the total market by value. According to GlobalData, this region is projected to grow at a CAGR of 8.8% from 2017 to 2022F. The region has a significantly higher per capita consumption, and is expected to grow faster given urbanization and greater disposable income, both of which drive demand for premium and specialized offerings.
Visayas and Mindanao accounted for the remaining 25.1% of the market. A boom in tourism along with rapid economic growth will continue to support branded processed meat's growth in the region.

Comparison of per capita expenditure of branded processed meat (US$), 2017



Source: GlobalData

Branded processed meat market value CAGR by region (%)



Source: GlobalData

Competitive Landscape

According to GlobalData, SMFB is the largest company in the Philippines for the branded processed meat industry, leading with a 35.0% market share in 2017. CDO Foodsphere, Inc. and Century Pacific Group emerged as the second and third largest players, respectively. SMFB has captured market share over the last few years from its key competitors as well as from other smaller players.

In terms of brand share, SMFB's *Purefoods* brand led the market with a 35.0% market share, almost double of the second largest player CDO Foodsphere, Inc.'s CDO brand.

Market share (value) by Company – Branded processed meat

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	San Miguel Food and Beverage, Inc.	31.2%	32.9%	35.0%
2	CDO Foodsphere, Inc.	18.2%	18.1%	18.0%
3	Century Pacific Group	17.2%	16.8%	16.3%
4	Virginia Food, Inc.	8.2%	8.1%	8.0%
5	Others	25.2%	24.1%	22.7%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand- Branded processed meat

Rank	Brand	Company	Market share (%) 2015	2016	2017
1	Purefoods	San Miguel Food and Beverage, Inc.	31.2%	32.9%	35.0%
2	CDO	CDO Foodsphere, Inc.	18.2%	18.1%	18.0%
3	Argentina	Century Pacific Group	10.4%	10.2%	10.0%
4	Virginia	Virginia Food, Inc	8.2%	8.1%	8.0%
5	Swift	Century Pacific Group	6.8%	6.5%	6.3%
6	Others	Others	25.2%	24.1%	22.7%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Demand for convenience

The Philippines is home to several large cities such as Metro Manila, Cebu, and Davao. Therefore, a considerable number of consumers in the country seek products that help to save time. This is substantiated by a GlobalData survey, in which 77% of respondents state that they rely heavily on time-saving products and services. With consumers spending most of their time away from home, meat manufacturers are addressing the demand for efficient and time-saving products and services by launching Ready-to-Eat processed meat products that are pre-marinated and pre-cooked. SMFB has specifically addressed this trend by launching new handy, time-saving products such as *Purefoods Crispy Pata, Purefoods Lechon Kawali,* and *Purefoods Pulled Pork BBQ.*

Rising prosperity driving demand for indulgent products

According to GlobalData, with the rising prosperity in the Philippines, consumers are prompted to seek premium and high quality meat products. Meat companies are catering to this demand by offering processed meat sourced from imported cattle known for their tastier meat. Furthermore, as economic growth continues, consumers are willing to spend more on meat products flavored with unique flavors and spices. Therefore, meat products in flavors and tastes 'borrowed' from foreign cuisines are becoming popular among customers in this highly competitive market. Meat manufacturers such as SMFB have launched products such as the *Purefoods Deli Hungarian Cheese Sausage* and the *Angus Beef Franks* which cater to the market seeking gourmet indulgent products.

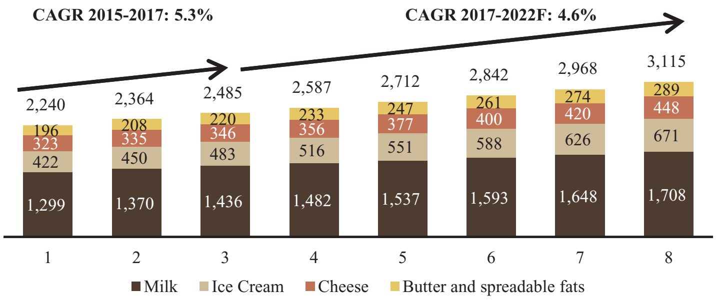
DAIRY INDUSTRY

Market Overview and Outlook

According to GlobalData, the market value of dairy industry in the Philippines reached US$2,485 million in 2017. According to the same source, the market value of the dairy industry is projected to grow at a CAGR of 4.6% for 2017 to 2022F, mainly driven by the rising income levels of Filipinos as a result of rapid economic growth as well as an increasing attention to health and nutrition. On a per capita consumption basis, the Philippines is significantly lower than mature markets such as the United States and is also lower than most of its regional peers, implying further room for growth. However, the low domestic production of dairy products along with lack of infrastructure has been limiting on both the production and distribution level. Improvement in animal nutrition and farming practices will likely enhance production capabilities going forward, while the expansion of modern retail chains encouraged by investments in infrastructure will be advantageous for the industry, especially for perishable goods that require refrigeration.

Milk is a staple in diets of Filipinos and is the largest segment, accounting for 57.8% of the market in 2017. Other dairy categories include cheese (13.9 % of total market value in 2017), butter and spreadable fats (8.9 % of the market in 2017), and ice cream (19.4% of the market in 2017).

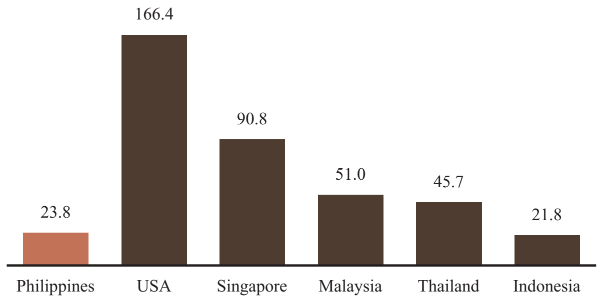
Philippines dairy market value by segment (US$ million)



	CAGR 2015-2017	CAGR 2017-2022F
Milk	5.1%	3.5%
Ice Cream	7.0%	6.8%
Cheese	3.5%	5.3%
Butter and spreadable fats	6.0%	5.6%

Source: GlobalData

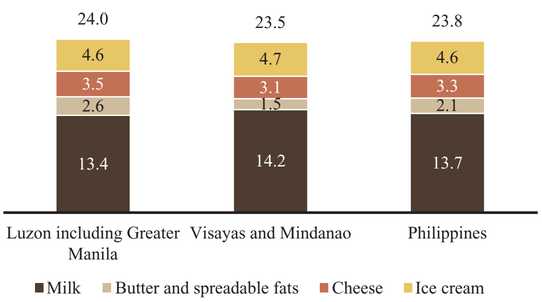
Comparison of per capita expenditure of dairy (US$), 2017



Source: GlobalData

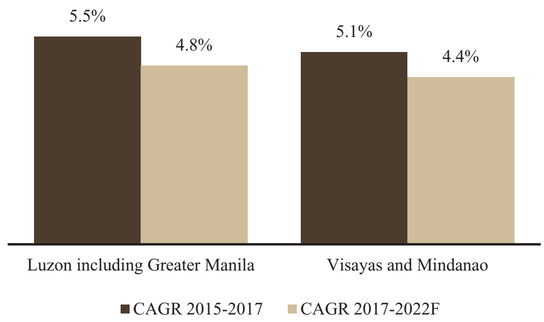
On a regional basis, Luzon including Greater Manila, accounts for 57.0% of the market by value in 2017. On a per capita basis, Luzon including Greater Manila, expenditure is slightly higher than Visayas and Mindanao, but is largely expected to grow in line over the next few years.

Comparison of per capita expenditure of dairy (US$), 2017



Source: GlobalData

Dairy market value CAGR by region (%)



Source: GlobalData

Competitive Landscape

The Philippine dairy market is fairly concentrated with the top five companies holding a large majority of the market. International players capture the majority of the market, with the exception of SMFB, which has gradually gained shares over the last few years and is the third biggest player in the market.

On a sub-segment brand level, there are differences between the competitive landscapes across sub-segments, despite key players adopting a multi-brand and product strategy.

Market share (value) by Company – Dairy (excl. ice cream)

Rank	Company	Market share (%) 2015	2016	2017
1	Nestle SA	33.5%	33.6%	33.9%
2	Royal Friesland Campina	18.7%	18.6%	18.6%
3	San Miguel Food and Beverage, Inc.	12.3%	12.3%	12.5%
4	Mondelez International	9.1%	8.7%	8.4%
5	Fonterra Co-operative Group Limited	5.7%	5.7%	5.8%
6	Others	20.7%	21.1%	20.8%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand – Milk

Rank	Brand	Company	Market share (%) 2015	2016	2017
1	Nestle	Nestle SA	34.5%	34.7%	35.0%
2	Alaska	Royal Friesland Campina	26.2%	26.0%	26.0%
3	Bear Brand	Nestle SA	12.3%	12.3%	12.3%
4	Anchor	Fonterra Co-operative Group Limited	6.2%	6.2%	6.2%
5	Magnolia	San Miguel Food and Beverage, Inc.	6.0%	6.0%	6.0%
6	Others		14.8%	14.9%	14.5%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand – Butter and spreadable fats

Rank	Brand	Company	Market share (%) 2015	2016	2017
1	Star	San Miguel Food and Beverage, Inc.	32.2%	32.8%	33.2%
2	Minola	CIIF Oil Mills Group	14.3%	14.3%	14.3%
3	Anchor	Fonterra Co-operative Group Limited	12.2%	12.0%	11.9%
4	Magnolia	San Miguel Food and Beverage, Inc.	9.9%	9.6%	9.4%
5	Elle & Vire	Elle & Vire International	6.7%	6.5%	6.4%
6	Lurpak	Arla Foods amba	5.9%	5.7%	5.5%
7	Dari Crème	San Miguel Food and Beverage, Inc.	5.4%	5.3%	5.2%
8	Arla	Arla Foods amba	0.5%	0.5%	0.5%
9	Others		12.8%	13.3%	13.5%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand – Cheese

Rank	Brand	Company	Market share (%) 2015	2016	2017
1	Eden	Mondelez International	24.0%	23.6%	23.3%
2	Magnolia	San Miguel Food and Beverage, Inc.	16.2%	16.4%	16.7%
3	Cheez Whiz	Mondelez International	14.3%	13.9%	13.5%
4	Kraft	Mondelez International	12.8%	12.3%	12.0%
5	Emborg	Uhrenholt A/S	2.1%	2.1%	2.0%
6	Others		30.6%	31.7%	32.5%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand – Ice cream

			Market share (%)		
Rank	**Brand**	**Company**	**2015**	**2016**	**2017**
1	Selecta	Unilever	44.3%	44.3%	44.8%
2	Magnolia	San Miguel Food and Beverage, Inc.	11.5%	11.5%	11.4%
3	Nestle	Nestle SA	6.0%	5.9%	5.8%
4	FIC	The Food People, Inc.	2.1%	2.1%	2.1%
5	Arce Dairy Ice Cream	Arce Dairy	1.4%	1.4%	1.4%
6	Others		34.7%	34.3%	34.5%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Increasing awareness of nutrition and well-being

Fueled by the desire to lead active lifestyles, Filipino consumers have been changing dietary habits and seek 'better for you' products focused on improved nutrition. The use of natural ingredients in dairy products has also been a major factor in influencing consumers' choices. According to GlobalData, 92% of respondents in a survey stated that they have a more favorable perception of groceries if the products have natural ingredients. Dairy manufacturers are therefore highlighting specialized attributes of their products with claims on labelling, such as "free from", "low fat", "zero preservatives". For instance, SMFB has launched *Magnolia Purefresh Milk, Magnolia Low Fat Milk,* and *Magnolia Non-Fat Milk.*

Demand for quality and experimentation

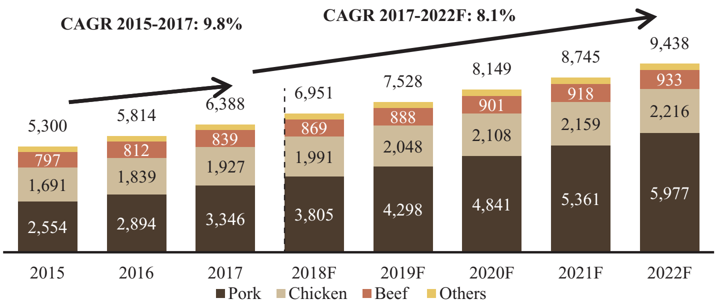
Given the increasing disposable incomes, consumers are becoming increasingly sophisticated and seek products that offer indulgent experiences, driving demand for high quality products that are premium, or made from decadent ingredients. The Filipino consumers' willingness to experiment has likewise led dairy manufacturers to create new flavors that are unique and novel, while catering to the preference of local familiar flavors. SMFB has, for instance, extended its *Magnolia Best of the Philippines* ice cream range with new flavors, such as *Tablea Yema*, *Macapuno Caramel,* and *Taro White Cheese* in March 2018.

PROTEIN INDUSTRY

Market Overview and Outlook

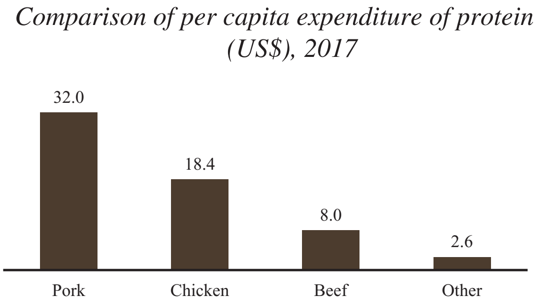
The protein industry in the Philippines reached US$6,388 million in 2017, of which pork accounts for 52.4% of total market value, followed by chicken, beef, and other animal protein. Pork also accounts for the highest per capita expenditure, and is forecasted to grow at the fastest pace at a CAGR of 12.3% from 2017 to 2022F. According to GlobalData, growing populations, robust economic growth and a tradition for meat-heavy diets drive growth in demand for fresh meat products. The Philippines relies heavily on meat imports as local production cannot keep up with domestic demand. However, continued development of production facilities and government initiatives will likely increase domestic production in the coming years. On a regional basis, Luzon including Greater Manila, accounted for 61.6% of the market value in 2017, with a higher per capita expenditure, and is also expected to grow significantly faster in the next few years.

Philippines protein market value by segment (US$ million)

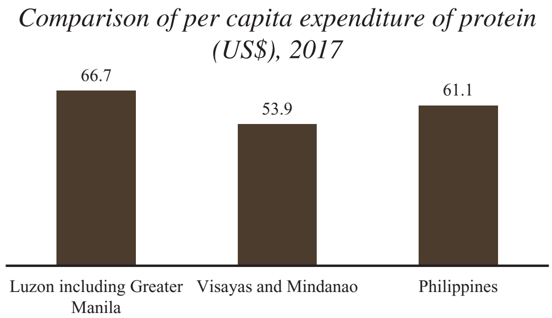


	CAGR 2015-2017	CAGR 2017-2022F
Pork	14.5%	12.3%
Chicken	6.8%	2.8%
Beef	2.6%	2.1%
Other	3.5%	2.4%

Source: GlobalData



Source: GlobalData



Source: GlobalData

Competitive Landscape

The protein market in the Philippines is relatively fragmented with three main players. SMFB is the leading player in the protein industry with 23.5% market share in terms of total value in 2017, through its *Monterey* and *Magnolia* brands. *Magnolia* is the #1 brand in the market in 2017 with 20.0% market share. Wilson Farms and Fresh Options are the second and third players in the market with 15.0% and 12.0% market shares, respectively.

Market share (value) by Company – Protein

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	San Miguel Food and Beverage, Inc.	24.3%	23.8%	23.5%
2	Wilson Farms	15.3%	15.1%	15.0%
3	Fresh Options	12.4%	12.2%	12.0%
4	Bounty Argos Ventures, Inc.	3.7%	3.6%	3.5%
5	Others	44.3%	45.2%	46.0%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Market share (value) by Brand – Protein

			Market share (%)		
Rank	**Brand**	**Company**	**2015**	**2016**	**2017**
1	Magnolia	San Miguel Food and Beverage, Inc.	20.9%	20.4%	20.0%
2	Wilson Farms	Wilson Farms	15.3%	15.1%	15.0%
3	Fresh Options	Fresh Options	12.4%	12.2%	12.0%
4	Monterey	San Miguel Food and Beverage, Inc.	3.4%	3.5%	3.5%
5	Bounty Fresh	Bounty Agro Ventures, Inc.	3.7%	3.6%	3.5%
6	Other	Other	44.3%	45.2%	46.0%
	Total		100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Concerns for food safety and transparency

With a number of meat concerns in the Philippines in the last few years, consumers have become more cautious when purchasing fresh meats. Butchers and meat companies are addressing such concerns with more information on the source and quality standards they follow. Some meat companies claim that they slaughter chickens that are bred on their own poultry farms and dressed only in AAA dressing plants accredited by the National Meat Inspection Service.

Demand for fresh and natural products

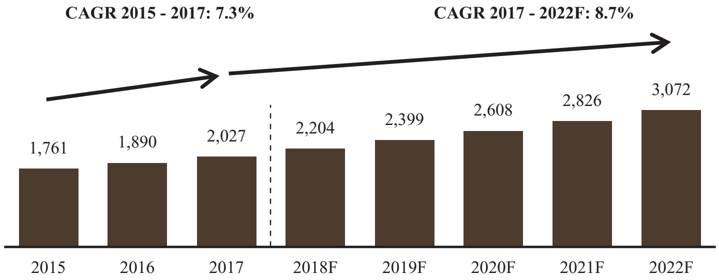
As consumers become more health-conscious, consumers have become cautious of artificial additives and ingredients such as preservatives, flavorings and colors. Meat producers have tried to address the demand for free range meats, which have gained popularity for their pure and natural attributes. SMFB, for instance, offers its *Magnolia Whole Chickens* range, which is free from antibiotics, promotants, hormones, and steroids, and is also grown in stress-free environments.

ANIMAL NUTRITION AND HEALTH (ANIMAL FEEDS) INDUSTRY

Market Overview and Outlook

The Philippine animal nutrition and health (animal feeds) industry reached US$2,027 million in 2017, and is expected to grow at a CAGR of 8.7% from 2017 to 2022F. Growth will mainly be driven by the growing demand for meat and dairy products, which are expected to enjoy attractive growth and are supported by government initiatives. Given the preference for pork in the Philippines, demand for hog feed will likely see the strongest growth. According to GlobalData, the rising imports of wheat and corn will lead to opportunities for players in the market, which is evidenced by SMFB and Cargill's announced plans to set up new feed mills across the country. The shift away from antibiotic use in livestock farming will continue to spur innovation in the sector.

Animal feeds market value (US$ million)



Source: GlobalData

Competitive Landscape

According to GlobalData, SMFB is the leading player in the Philippine animal feeds market in 2017 and had 25.0% market share, significantly ahead of the closest competitor Purina Animal Nutrition. Each of the companies has one main brand: SMFB's *B-Meg*, United Animal Health's JBS United and Aboitiz Equity Ventures' Pilmico.

Market share (value) by Company – Animal nutrition and health

		Market share (%)		
Rank	**Company**	**2015**	**2016**	**2017**
1	San Miguel Food and Beverage, Inc.	25.3%	25.3%	25.0%
2	United Animal Health	15.3%	15.1%	15.0%
3	Aboitiz Equity Ventures	11.3%	11.4%	11.5%
4	La Filipina Uy Gongco Corporation	6.3%	6.3%	6.2%
5	Neovia	0.0%	4.6%	4.6%
6	Popular Feedmill Corporation	4.7%	0.0%	0.0%
7	Others	37.1%	37.3%	37.7%
	Total	100.0%	100.0%	100.0%

Source: GlobalData

Key Market Trends

Demand for customization and product specificity

According to GlobaData, with the needs of livestock being unique, farm owners often prefer custom-made animal nutrition solutions. This demand for specialized livestock solutions prompts animal nutrition manufacturers to innovate and design products catering to the specific requirements of animals in partnership with livestock farmers. Likewise, varying nutrition requirements drive demand for animal feed with specific attributes that comply with changing requirements. This in turn is spurring the need for animal nutrition with added or fortified nutrition that helps with the different stages of animal life. Manufacturers are therefore offering animal nutrition products with specific nutrients for particular occasions. For instance, SMFB has launched products like *B-MEG Premium SUPER INAHIN 2*, which contains ingredients that help improve milk production in lactating pigs to ensure healthy piglets.

BUSINESS

OVERVIEW

San Miguel Food and Beverage, Inc. ("**SMFB**") is a leading food and beverage company in the Philippines. The brands under which we produce, market and sell our products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy,* for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds. We believe that 87% of SMFB's revenue in 2017 was generated from seven categories where the Company holds the No. 1 position for beverages and food. For the year ended 2017, most of our brands held market-leading positions with our beer brands having an aggregate market share of 92.7% according to GlobalData.

We have three primary operating divisions—(i) beer and non-alcoholic beverages ("**NAB**"), (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise our beverage business (the "**Beverage business**"). We operate our Beverage business through San Miguel Brewery Inc. and its subsidiaries ("**SMB**" or the "**Beer and NAB Division**") and Ginebra San Miguel Inc. and its subsidiaries ("**GSMI**" or the "**Spirits Division**"). Our Food business (the "**Food Division**") is managed through a number of other subsidiaries, including San Miguel Foods, Inc. ("**San Miguel Foods**"), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. ("**Purefoods-Hormel**"). We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to almost 60 markets worldwide.

We are a subsidiary of San Miguel Corporation ("**SMC**" and together with its portfolio of companies, the "**San Miguel Group**"), one of the largest and most diversified conglomerates in the Philippines, with sales contributing approximately 5.2% of Philippine GDP in 2017. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, car distributorship and banking services. We are a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation.

We are listed on the PSE under stock code "**FB**". Our market capitalization was ₱534,784 million (US$9,996 million), with a common share price of ₱90.50 as of October 15, 2018. Prior to the Offering, SMC approved and implemented the internal restructuring and consolidation of its food and beverage businesses under SMFB (previously known as San Miguel Pure Foods Company Inc., "**SMPFC**") (the "**SMFB Consolidation**"). As part of the SMFB Consolidation, SMB and GSMI were consolidated with the Food Division under SMFB, establishing a unique unit within the San Miguel Group focused on the food and beverage businesses. We believe that following the SMFB Consolidation, we stand to benefit from the synergies and cost savings generated through our expanded size, shared infrastructure and group-wide procurement. We also believe that we will be able to extend our reach to even more consumers across various channels in the Philippines and around the globe, ultimately enhancing shareholder value. See "*Corporate Structure and SMFB Consolidation*."

For each of the years ended December 31, 2015, 2016 and 2017, our food and beverage businesses had combined sales of ₱205,396 million, ₱227,279 million and ₱251,589 million (US$4,703 million); gross profit of ₱64,699 million, ₱75,171 million and ₱83,129 million (US$1,554 million); Adjusted EBITDA of ₱37,486 million, ₱44,795 million and ₱49,937 million (US$933 million); and net income of ₱17,854 million, ₱24,002 million and ₱28,226 million (US$528 million), respectively.

For the six-month period ended June 30, 2017, we had sales of ₱119,130 million, gross profit of ₱38,978 million, Adjusted EBITDA of ₱22,583 million and net income of ₱12,805 million compared to sales of ₱137,441 million (US$2,569 million), gross profit of ₱44,833 million (US$838 million), Adjusted EBITDA of ₱26,569 million (US$497 million) and net income of ₱15,370 million (US$287 million) for the six-month period ended June 30, 2018.

The following table sets forth the contribution of the three divisions to total sales for the periods indicated:

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		2016		2017			2017		2018		
	₱	%	₱	%	₱	US$(2)	%	₱	%	₱	US$(2)	%
	(in millions, except for percentages)											
Sales(1)												
Beverage Business												
Beer and NAB Division	₱82,371	40.1	₱97,156	42.7	₱113,250	US$2,117	45.0	₱53,060	44.5	₱62,509	US$1,168	45.5
Spirits Division	16,170	7.9	18,560	8.2	20,891	390	8.3	10,123	8.5	12,046	225	8.8
Food Division	106,855	52.0	111,563	49.1	117,448	2,195	46.7	55,947	47.0	62,886	1,176	45.7
Total	**₱205,396**	**100.0**	**₱227,279**	**100.0**	**₱251,589**	**US$4,702**	**100.0**	**₱119,130**	**100.0**	**₱137,441**	**US$2,569**	**100.0**

Notes:

(1) Represents the external sales of each division and excludes inter-division sales.

(2) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

The following table summarizes domestic sales by geographic region as a percentage of total sales for the periods indicated:

	For the years ended December 31,			For the six-month period ended June 30,	
	2015	2016	2017	2017	2018
Luzon (including Greater Manila)	69%	68%	67%	67.2%	66.5%
Visayas and Mindanao	31%	32%	33%	32.8%	33.5%
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

STRENGTHS AND STRATEGIES

Competitive Strengths

We believe that we have the following competitive strengths:

One of the largest consumer companies in the Philippines with a rich heritage of 128 years

We are one of the largest consumer companies by revenue and net income among our publicly listed peers in the Philippines with revenues and net income of ₱251,589 million (US$4,703 million) and ₱28,226 million (US$528 million) in 2017, respectively. Our beer business was founded as *La Fabrica de Cerveza de San Miguel* in 1890, a single brewery with a single product and over the years, we have transformed the *San Miguel* brand into a household name that is interwoven with the economic and cultural fabric of the Philippines, supporting Philippine development and economic progress. Our 128 years of heritage has allowed us to develop a deep and unparalleled understanding of our consumers, an extensive and efficient nationwide distribution network and deeply entrenched brands that provide us with significant competitive advantage. We believe that we have continuously demonstrated our ability to adapt throughout our history by leveraging extensive operational know-how, market experience and consumer insight to remain at the forefront of new trends and innovations, thereby allowing us to successfully enter new categories and capture incremental market share over the years.

According to GlobalData, our categories in aggregate contributed to 11.6% of the total household consumption expenditures in the Philippines in 2017, which in turn accounts for 73.5% of Philippine GDP. As an integrated food and beverage platform, we believe that we are the proxy for Philippine consumption with 94% of our revenues from the domestic market as of December 31, 2017, and are poised to benefit from favorable macroeconomic trends such as increasing household income, rapidly growing per capita consumption in key categories, population growth, urbanization and GDP growth. The Philippines is one of the fastest growing economies in the Southeast Asia, with expected nominal GDP CAGR of 9.2% from 2017 to 2022F according to GlobalData estimates. The Philippines has one of the youngest populations in Southeast Asia with median age of 24 years, and urbanization is expected to remain consistent at around 44% until 2022 according to GlobalData. Food consumption expenditure per capita in the Philippines has grown from US$344 in 2012 to US$400.8 in 2017, representing a CAGR of 3.1%, according to GlobalData. According to the same source, food consumption per capita in the Philippines is expected to continue growing at a CAGR of 3.3% over the next four years, representing one of the fastest growing markets in the region. Also, while per capita alcoholic beverage consumption in the Philippines increased from 24.2 liters in 2012 to 26.8 liters in 2017, this remains one of the lowest consumption rates in the region, according to GlobalData, indicating significant room for growth.

Powerful portfolio of iconic and trusted brands that resonate deeply with our local consumers

Our key brands have a rich history and long track record, catering to consumers for over a century. For example, *Ginebra San Miguel* was launched in 1834, *San Miguel* beer was established in 1890, *Magnolia* in 1925, *B-Meg* in 1953 and *Purefoods* in 1956. Our strength is demonstrated by leading brand rankings in several segments and product categories. We produce all the top four beer brands in the country by volume, according to GlobalData. *Red Horse* is the leading beer brand in the Philippine beer market with a volume share of 63.3% in 2017, followed by *San Miguel Pale Pilsen* with 12.9%, *San Mig Light* with 7.5% and *Gold Eagle* with 6.4%. Despite the entry of local beer competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, we believe that our brands are top-of-mind and continue to maintain their leading positions across market segments. *Super Dry* is the market leader in the premium segment. *Red Horse, San Miguel Pale Pilsen* and *San Mig Light* are the leading brands in the mainstream segment, and *Gold Eagle* leads in the economy segment. According to GlobalData, our core spirits brands, *Ginebra San Miguel* and *Vino Kulafu* are also market leaders in the gin and Chinese wine categories at 95.3% and 64.5% volume share, respectively. Similarly, *Purefoods* branded processed meats, *Magnolia* (fresh chicken), *Monterey* (fresh meats), *Star* (butter and spreadable fats), and *B-Meg* (feeds) are market leaders in value terms for their respective categories according to GlobalData.

We also employ a variety of marketing formats to establish our food products as the trusted brand of choice. *Monterey, Magnolia* and *Purefoods Corned Beef* were recognized as trusted brands by Reader's Digest for 2018 with *Monterey* and *Magnolia Chicken* receiving a platinum award while *Purefoods Corned Beef* garnered a gold award. Our *Magnolia* brand was also recognized as the top 24 brand out of the 1,000 most loved brands in the Philippines by Campaign Asia in 2017; recognized in the 2018 Panata Awards, and was awarded the Silver Award for Excellence in Marketing Innovation, Bronze Award for Excellence in Customer Empowerment, Bronze Award for Excellence in Customer Empowerment (People's Choice), and Finalist in Excellence in Brand Positioning. Our beer products have received numerous international awards for product quality and excellence including awards from Monde Selection. Monde Selection is an international institute based in Belgium founded in 1961 which evaluates, tests and awards consumer products with its quality label. Since 2000, *San Miguel* beers have received an aggregate of 270 grand gold, gold, silver and bronze medals including 45 trophies and awards from Monde Selection. In 2017, our beer products received gold medals for *Super Dry*, *Cerveza Negra*, *San Mig Light*, *Red Horse,* and *Anker* and silver medals for *San Miguel Premium All Malt*, *San Miguel Pale Pilsen* and *San Mig Light*. Our Spirits Division also received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue, Ginebra San Miguel Premium Gin* and *Ginebra San Miguel,* and silver medals for *GSM Blue Flavors Mojito, Vino Kulafu* and *Primera Light Brandy*.

Our diversified brand and product portfolio satisfies multiple consumption occasions and caters to different market segments by addressing varying consumer needs, lifestyles and preferences. *San Mig Light* and *San Mig Zero* were introduced to address the increasing health consciousness of beer drinkers. *Red Horse* was launched in response to the growing demand for higher alcohol content beverages, while *San Miguel Flavored Beer* caters to entry point drinkers. *Ginebra San Miguel* and *Vino Kulafu* target the mature segment, while *GSM Blue and GSM Blue Flavors* target the growing younger segment. Our Food Division introduced *Magnolia* marinated and choice chicken cut-ups and customized flour premixes to address consumer need for convenience. Each of our brands represents a unique experience for our consumers. For example, the consumption of *San Miguel* beer fosters camaraderie and enhances the celebration of life milestones, thus nurturing friendships and authentic connections. *Ginebra* conveys a brand image of resiliency, strength, perseverance, and a "never-say-die" spirit. *Magnolia* stands for freshness and family love through its quality products covering several categories from chicken to dairy and bread spread products. *Purefoods* stands for quality value-added meats and offers food products that are "ready-to-eat" and "heat and serve" to address our consumers' increasing need for convenience. We also launched a new line of canned meat products to cater to the huge consumer market for affordable but high quality packaged meats. The *Star* brand is a well-known brand of trusted quality and nutrition within the lower and middle income segments. We have won numerous international awards for quality and excellence, in recognition of our products' leadership in their respective segments and as a result of our strong brand equity and high-quality products.

We believe that our well-recognized brands, our ability to customize our products to cater to specific needs, and the sale of a number of our products through our clean and convenient branded distribution outlets enable SMFB to command favorable pricing. The diversity of our product offering reduces our dependence on any single product segment and makes us more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another.

Our beer brands have significant international brand equity with a global presence in approximately 60 countries. We are one of the leading brands in the market or segment for the countries where we operate. For example, *San Mig Light* is a leading premium beer brand in Thailand, *Anker Bir* is a leading beer brand in Indonesia, and *Blue Star* is a leading beer brand in North China. Our food products also have a growing international presence in North America, South East Asia, Australia and the Middle East.

Leading market positions in the most attractive consumer categories

Our businesses hold market-leading positions across the food and beverage categories with large addressable markets and attractive growth prospects. Through the SMFB Consolidation, we are now a unique platform offering an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in six categories and serving the full spectrum of the growing domestic population. We are intimately involved in our consumers' lives at every meal and occasion, guided by our company slogan of "*Celebrating Life*." We believe that our products are part of the daily lives of our consumers, providing sustenance and enjoyment to families through our trusted food brands and celebrating friendships and camaraderie with our world-class portfolio of beer and NAB and spirit products. Our product portfolio is suitable for any occasion throughout the year, whether it be for our consumers' everyday consumption or for their most significant life events, and continuously evolves to cater to consumer tastes and preferences. Based on a survey conducted by KantarWorldpanel, between June 2015 to June 2018, our products were present in 92% of Filipino homes.

SMFB's total addressable market comprises 41.8% of the Philippine food and beverage ("**F&B**") market in 2017. The same addressable market (excluding NAB) is expected to grow at 7.2% CAGR from 2017 to 2021, compared to 5.3% CAGR for the total Philippine F&B market, according to GlobalData.

We believe that 87% of our revenues in 2017 was generated from seven categories where we hold No. 1 rankings for beverages and food. Said seven categories combined are expected to add US$6.3 billion in incremental market size in the Philippines from 2017 to 2022, according to GlobalData.

According to the same source, we are currently the largest beer producer in the Philippines with a 92.7% market share and have consistently held over 90% market share by volume since 1999. We are also the 13th largest beer producer globally by volume and one of the top four Asian beer players in 2017 by revenue. Our significant competitive advantage is demonstrated by our consumers' strong preferences for *San Miguel* products over competition. As a highly resilient category with a stable and loyal customer base, the Philippine beer industry is currently valued at US$2,983 million and is expected to grow at a CAGR of 9% from 2017 to 2022, according to GlobalData.

Our market leadership in spirits is demonstrated by our strong market share in the gin category and a growing demand for our Chinese wine product. We produce *Ginebra San Miguel* which is the world's number one selling gin by volume according to GlobalData. We believe that our core spirits brands in gin and Chinese wine are gaining popularity domestically and taking market share from other spirits in the Philippines. According to GlobalData, the gin and Chinese wine categories are among the fastest growing segments with 7.6% and 9.9% total volume CAGR from 2017 to 2022, respectively, poised to outpace the growth of the spirits industry. The spirits market in the Philippines is currently valued at US$2,043 million and is expected to grow at a CAGR of 4.8% from 2017 to 2022, according to GlobalData.

According to GlobalData, we hold the #1 market position in four out of eight food categories, contributing over 80% of the total Food Division's revenue. Within the branded and processed meat category, we hold the #1 market position with 35% market share; in butter and spreadable fats, we hold the #1 market position with 47.8% market share; in cheese, we hold the #2 market position with 17% market share and in ice cream, we hold the #2 market position with 11.4% market share. In the animal nutrition and health segment, we holdthe #1 market position with 25% market share, while in the protein products segment, we hold the #1 market position with 23.5% market share, according to GlobalData. The Philippines' prepared and packaged foods industry is currently valued at US$2,871 million (excluding coffee) and is expected to grow at a CAGR of 5.1% from 2017 to 2022, according to GlobalData.

Strategically located production facilities providing strong competitive advantages

We believe our production facilities are strategically located throughout the Philippines, providing wide coverage of the population while optimizing distribution costs.

With six beer production facilities strategically located across the Philippines and in close proximity to consumer markets, we are able to serve all regions and transport beer products to market within five to seven days of production, thus ensuring product availability and freshness. Spirits are produced from fine alcohol obtained from a centralized distillery in Negros Occidental, which is the Philippines' largest molasses producing region, and bottled at five domestic facilities located across the country. We also operate a nationwide manufacturing network for food products with 40 feedmills, 58 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas and Mindanao. As a result of our food production facilities' proximity to markets and efficient cold chain, we are able to ensure optimal shelf life and reduce perishability of fresh products. We believe our facilities are among the most efficient in the country given our use of modern technology. Our production facilities are equipped with automated machines which can manufacture and package products in a variety of formats, while maintaining low production costs. Most of our poultry farms are equipped with tunnel ventilation to produce healthier, higher quality and more cost-efficient meats.

Additionally, our facilities are compliant with the strict international requirements of International Organization for Standardization ("**ISO**"), Good Manufacturing Practices ("**GMP**") and Hazard Analysis of Critical Control Points ("**HACCP**") certifications. Our Food Division strictly complies with relevant regulations which mandate recall of food products which may pose a major food safety issue. Our stringent safety and quality standards are reflected in our historical track record where we have had no major food and beverage safety incident in the last five years.

Extensive distribution network across the Philippines covering diverse channels

The Philippine archipelago consists of 7,641 islands divided into three main regions of Luzon (including Greater Manila), Visayas and Mindanao that have distinct macro and industry dynamics. This creates a unique market and competitive landscape that allows us to significantly benefit from the scale of our extensive nationwide distribution network.

As the leading player in the Philippines, our products occupy prime shelf spaces in groceries, convenience stores, and *mom and pop* stores across the country.

We believe that we have the largest and most extensive distribution network in the Philippines. The Beer and NAB Division operates over 50 sales offices, having partnerships with approximately 500 dealers with its products present in over 400,000 outlets. The Spirits Division operates 15 sales offices situated strategically across the Philippines and coordinates with a network of 94 dealer sites covering approximately 141,000 outlets. Our food products are offered through approximately 130,000 points of sale, having partnerships with over 600 dealers/distributors.

To service our distribution network, we have established dedicated teams and customized products to target different distribution channels. We believe that our multi-channel distribution platform has allowed us to maximize customer reach and has been one of the key factors to our success in building and developing our market-leading positions. We supply our products to *mom* and *pop* stores, wet markets and other traditional retail outlets; modern trade outlets, including supermarkets, hypermarkets, convenience stores and grocery stores; on-premise channels such as hotels, restaurants, cafes and bars; exclusive retail outlets; and franchised stores. In particular, we have a key accounts group within each division, which focuses on maximizing distribution across all channels.

We are able to reach a wide number of consumers through our extensive distribution network. For our Beer and NAB Division, the strong dealership network ensures the availability of products throughout the Philippines. Dealers are provided systems and trainings related to dealer operations. Discounts are given to dealers on a fixed base instead of percentage of sales which ensure that the dealers maintain profit margins while creating a competitive advantage for us as the most preferred product. The Returnable Glass Bottle ("**RGB**") system allows our distributors to interact on a regular basis with our customers upon collection and return of the RGBs, further fortifying consumer relationship. A strong aspect of our distribution network is our perennial presence in *mom* and *pop* stores. These *mom* and *pop* stores are difficult for competitors to penetrate as they have limited capital and shelf space, and only carry brands that are fast-moving. Our distribution networks also organize dealers by assigned geographic areas ensuring the widest coverage of our products. For the Food Division specifically, efficiency is enhanced by having fewer but larger exclusive dealers for the Prepared and Packaged Food segment.

We have also pioneered the development of innovative formats to sell our food products, which has the benefit of growing the market by driving consumer preferences. Our Food Division introduced *Monterey Meatshops*, *Magnolia Chicken Stations*, *San Mig Food Ave* and *Kambal Pandesal* outlets as well as other distribution outlets to distribute our Food Division products. We established Great Food Solutions to manage sales to our key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

Our powerful consumer insights drive growth, innovation, and new product development

Our ability to successfully introduce new products by leveraging our extensive knowledge of consumer preferences, demographic and market trends, as well as our broad distribution channels, have allowed us to attain market leadership positions. Through our comprehensive reach and investment in market research and collaboration and feedback from our strong relationships with our customers, dealers and distributors, we are able to gain meaningful consumer insights, allowing us to anticipate changes in consumer demand and preferences.

We constantly engage in extensive research for updates on market trends and changes in consumer tastes. We identify market gaps and develop an optimum yet manageable new product pipeline. This promotes effective resource management and optimizes new product development ("**NPD**").

Our market leading position in beer allows us to execute NPD in a calibrated manner. Examples of successful beverage product launches include *Red Horse, San Mig Light* and *San Miguel Flavored Beer*. *Red Horse* was introduced in 1982 to meet the growing demand for high-alcohol content beer. Through the introduction of new packaging formats to address varying consumption habits, we have grown *Red Horse* to become the number one beer brand in the Philippines today, appealing to a broad demographic segment. We likewise introduced the first light beer variant with the launch of *San Mig Light* in 1999 as well as the first local flavored beer, *San Miguel Flavored Beer* which was launched in 2010. *San Mig Light* and *San Miguel Flavored Beer* have grown to be among the fast growing beer brands in our portfolio since their respective launches.

Meanwhile, the NPD strategy for the Spirits Division focuses on recruiting new gin drinkers and gaining market share in rum and brandy, with NPD cycles of at least six months. We believe that the launch of the low-proof alcohol *GSM Blue Flavors* has been a success especially with the introduction of two new variants, *Margarita* and *Gin Pomelo*, whereby volumes have doubled since its introduction in 2012.

In the Food Division, we execute a broad NPD approach across multiple local brands, introducing an average of 50 new products per year in the course of 2015 to 2017. We utilize our proprietary consumer data and insights to identify new trends and guide the direction of our NPD pipeline. The Food Division's Corporate Innovations Group spearheads a division-wide innovation program for our food businesses. Part of the innovation initiative includes regular briefings on industry updates and forward food trends. The stage-gate process imbedded as part of the innovation program includes monthly discussions with top management on the innovation pipeline and the progress of project studies. We were the first to launch value-added customized flours and premixes for bakeries, food manufacturers, food service outlets and retail markets. We pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten for breakfast in the Philippines. We continuously develop and launch new products and flavor variants and packing innovations to adapt to changing consumer trends or replace old products that have reached their peak. Our ice cream business continuously develops new locally known flavors to excite consumer tastes, such as our *Best of the Philippines* variants. We have also introduced several flavors and variants of *Star* margarine in order to grow market consumption. We have launched new products that embody both taste and convenience in one package such as *Purefoods Crispy Pata, Purefoods Lechon Kawali* and *Purefoods* Native Line (e.g., *tocino* and *longganisa*).

We continuously create market opportunities and pioneer new product variants to excite the market and address its ever changing needs and preferences. These new product variants include, among others, flavored beer, flavored gin, unique ice cream flavors, "ready-to-eat" *Purefoods* chicken nuggets and *Magnolia* free range chicken to provide consumers healthier options.

Cost efficiency initiatives and unique elements of business model driving strong profitability

We engage in a variety of initiatives to minimize raw material and other input costs. For example, the Beer and NAB Division employs the RGB system which, with over 90% retrieval in the past five years, provides a significant competitive advantage by allowing us to manage costs. The Spirits Division manages cost by purchasing raw materials such as sugarcane molasses and alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open market. We have engaged in successful initiatives such as aggressively promoting bottles recycling for the Spirits Division, with 68% second-hand bottle usage rate in 2017 versus 67% in 2016. The climate-controlled facilities used by the Food Division have improved yields and created conducive environment for healthy animal growth. The Food Division continuously explores alternative raw materials from grains and by-products used in our Animal Nutrition and Health segment as well as alternative protein sources and flavors for the Prepared and Packaged Food segment.

Furthermore, our efficient and modern production facilities drive efficiency. Our best-in-class technologies and processes applied to facilities across the Beer and NAB, Spirits and Food Divisions also help reduce wastage and maximize production yields. Most of our production facilities are fully automated, thereby ensuring consistent quality of products with minimal spoilage. The brewing production processes are regularly reviewed to optimize output and generate cost savings. Additionally, each of the Beer and NAB, Spirits and Food Divisions have their own R&D teams which regularly monitor and conduct tests to ensure that production processes are up-to-date with the relevant industry standards and that high quality products will be sold at the least cost.

We believe that our vertically integrated facilities enable us to better manage raw material costs and extract margins along the entire food chain while ensuring superior food safety, traceability, and supply chain reliability and integrity. The Food Division's unique "farm-to-plate" business model allows us to derive synergies and extract margins along the entire food production and distribution process as it drives economies of scale from combined raw material sourcing, integrated production functions and shared sales, distribution, marketing and support functions. It also enhances operational flexibility to quickly adapt and augment our products to respond to market demand. Finally, cost efficiencies are also realized in unique aspects of our distribution chain. The Golden Bay Grain Terminal, which we own and which serves both feeds and flour operations, has facilitated the shipment of products through larger vessels thus minimizing intermediate handling and leakage, and resulting in lower freight and handling costs.

Highly experienced management team supported by the broader San Miguel Group and international partnerships

We operate with a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. Strong leadership and corporate values support low employee turnover with high engagement. For the six-month period ended June 30, 2018, employee turnover was 1.7% in our Beer and NAB Division, 3% in our Food Division, and less than 1% for our Spirits Division.

We provide various structured in-house and external training to our employees across all levels for their professional development which in turn provides our workforce with industry standard training and skills. For example, our San Miguel School of Brewing offers comprehensive programs covering all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel as brewmasters. Each of the Beer and NAB Division's more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience working for our beer business. The San Miguel Pure Foods University provides the Food Division employees with focused learning programs. Some of the schools launched under the university include the Leadership and Management School, Sales Academy, Finance School, Logistics School, Poultry & Livestock Slaughtering School, Feed Milling School, Animal Feed Science & Technology School, and Wheat & Flour Technology School. A highly specialized internal training program focusing on sensory skill development and critical processes of liquor manufacturing is also provided for employees of the Spirits Division. The rest of the employees of the divisions of SMFB likewise undergo professional training relevant to their work responsibility.

Our management team has been instrumental in the development, execution and management of an efficient and scalable platform and is dedicated to the sustainable growth of our businesses. We also benefit from the support of and have realized synergies from our relationship with the broader San Miguel Group. SMC's strong business reputation and experience in diverse consumer categories such as food, beverages, packaging, fuel and oil, power and infrastructure provide us with unparalleled macro-economic and consumer insights in the Philippines. For example, Petron Corporation's network of about 2,400 service stations all over the Philippines provides an effective distribution channel for retail sales for our food and beverage products. SMC's size and scale likewise provides substantial leverage and bargaining power with suppliers.

In addition, we have established strategic partnerships with globally renowned companies such as Kirin Holdings Company, Limited ("**Kirin**"), Hormel Netherlands B.V., Thai Life Group of Companies, and recently with Jacobs Douwe Egberts. We believe that these partnerships have expanded our product offerings, resulted in synergies and sharing of best practices and underscore the capability of our management team.

Strategies

Our principal long-term goal is to further strengthen and solidify our position as the leading food and beverage company in the Philippines, and consistently expand our business to meet rapidly growing consumer demand. We aim to achieve this goal by implementing the following strategies:

Continued execution of regionally tailored strategies, leveraging on our unique understanding of our consumers

We continue to leverage our extensive knowledge of our consumers in executing regionally tailored strategies. The Philippine archipelago has three main regions of Luzon (including Greater Manila), Visayas and Mindanao, each with distinct macro and industry dynamics. According to the GlobalData, Greater Manila and the rest of Luzon are relatively affluent areas contributing 38.1% and 34.1% of the 2017 nominal Philippine GDP, respectively. Visayas and Mindanao are less developed but have been experiencing strong economic growth. While these two regions constitute 19.3% and 24.2%, respectively, of the Philippine population, they contribute only 12.7% and 15.1% of 2017 nominal Philippine GDP, respectively, according to GlobalData. We believe that our market-leading positions enable us to leverage differentiated consumer insights specific to each region and execute tailored strategies, thus enhancing our nationwide presence. We are well-positioned to benefit from the growing demand for food and beverage products as driven by sustained economic growth, expanding urbanization, favorable demographic patterns, and rapidly changing consumer tastes and preferences.

Luzon (including Greater Manila)

In Greater Manila and other urban areas in Luzon, we continue to take advantage of the "premiumization" trend by strengthening the focus on our higher margin premium and upscale brands. This region offers promising prospects underpinned by rising consumer incomes and increasing consumer sophistication. In beer, we aggressively promote our premium brands and have introduced draft variants to cater to the upscale market. We aim to continue engaging the youthful market in Luzon by protecting the leadership of *Red Horse* and sustaining the growth of our core brands through appropriate marketing and penetration programs. To capitalize on the increasing health awareness of the market, we continue to promote *San Mig Zero* and *San Mig Light* in supermarkets, convenience stores, restaurants, and bars across key cities. In spirits, we aim to target the younger segment through *Primera Light Brandy* and *GSM Blue Flavors* and strengthen our leadership position with our core brand *Ginebra San Miguel*. We have also launched the *Magnolia Free Range Chicken* and *Magnolia Brown Eggs* to cater to health-conscious consumers. To address the rising demand for convenience, we continually introduce new products such as *Purefoods Crispy Pata* and *Purefoods Lechon Kawali*, which are well-loved viands in "heat and serve" formats. We are building a manufacturing plant at Sta. Rosa, Laguna, which is designed to produce fully cooked viands and ready-to-eat meals that will address the growing preference for convenient, delicious and nutritious meals.

Visayas and Mindanao

In Visayas and Mindanao, we are further expanding our presence and reach through the establishment of additional distribution hubs that will strengthen our network and direct servicing of outlets. We defend our stronghold of the alcoholic beverage market through our high alcohol brand, *Red Horse*, *San Miguel Pale Pilsen* and *Gold Eagle*. We intend to extend the reach of our spirits products through a combination of increasing direct selling operations and distributorship. We will expand into areas with strong growth potential, further increase *Vino Kulafu's* market share and promote the *Añejo Gold Medium Rum* brand through increased deployment of sales force. We are also expanding the presence of our food products in these regions by aggressively marketing the refrigerated meats segment, particularly, *Purefoods Higante* and *Star* hotdogs. We will strengthen our presence through improved availability by investing in production facilities and logistics infrastructures such as ports and warehouse as well as increasing deployment of sales force in these regions with the objective of expanding penetration and reach in fast developing key and remote areas.

We will continue to respond and address emerging market trends and changes in consumer preferences in key cities and fast-growing areas to answer the market's demand for authentic experiences, "premiumization" and indulgence, convenience and value, among others.

Maintain our market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development

We plan to invest in tailored brand building and marketing campaigns as well as pursue targeted NPD strategies in each product category. Through this, we expect to further reinforce our leadership positions and grow the total addressable market.

We continue to pursue innovative consumer promotions and relevant, consistent and fresh campaigns, on-ground activations as well as occasion-creation programs to strengthen demand for each of our brands and to guard against competition. In the Beer and NAB Division, we will actively promote specific brands and products in key segments such as premium, high-alcohol, flavored, light and other specialty categories. Our beer brands are also promoted through campaigns highlighting their image and positioning such as *Red Horse* having a "strong kick" and hailed as the "#1 alcobev brand" by GlobalData; *San Miguel Pale Pilsen* as the "original beer"; and *San Mig Light* as the beer that is "easy on the stomach". Music is also utilized in various campaigns. For example, *San Mig Light* is geared towards the electronic dance music audience while *Red Horse* is geared towards the rock enthusiasts. In the Spirits Division, marketing efforts for *Ginebra* continue to associate the brand with resiliency, strength, perseverance and a "never-say-die" spirit. For the Food Division, *Purefoods Tender Juicy* uses the "experts" campaign where "Kids can Tell" the difference between *Tender Juicy* and other hotdog brands. Our blue line of canned meats, utilizes the key campaign "*Pure Sarap*" *Purefoods* (or "*Purely Delicious*") which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is "*Pambansang Manok*" (or roughly translated as "*National Chicken*"), with the theme that if you want the best, then *Magnolia* is the nation's choice as *Magnolia Chicken* is packed with Omega-3, free from hormones, steroids and antibiotic residue and raised in stress free environments.

We utilize multiple marketing media such as print, television, digital and radio advertisements, billboards, consumer and trade activations such as promotions targeting specific consumer segments or trade channels, sponsorship in major "*fiestas*" or local festivals and food fairs, and basketball team sponsorships. We hold nationwide and local trademark, signature events such as *San Miguel Oktoberfest*, *Red Horse Pambansang Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad (Taste of Summer)* summer program and the National Beer Drinking contest which we believe have all been successful in reinforcing brand awareness in key customer segments. For example, our *Red Horse Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines, bolstered the image and positioning of *Red Horse* and established its lead among Filipino rock music enthusiasts; our *San Mig Light Party All Night* event leverages the popularity of electronic dance music to promote awareness of our lower-calorie offering in the younger demographic as well as establish its leadership in the bar channel. Similarly, the Spirits Division also holds its own events such as the World Gin Day and *Ginumanfest* concert series in select provinces across the Philippines to further brand awareness and promote consumption. We plan to increase community events to achieve stronger regional brand recognition of our beverage products. For the Food Division, we launched Home Foodie in 2010, a three-minute cooking show featuring food discoveries using SMFB products. The Food Division also sponsors major food events such as Madrid Fusion in Manila and regional *KULINARYA* festivals which are implemented through our foodservice group, Great Food Solutions. Each of our Beer and NAB, Spirits and Food Divisions also sponsors a professional basketball team in the Philippine Basketball Association. We believe the basketball team sponsorships keep our brands top-of-mind, as basketball is one of the most popular and widely followed sports in the Philippines, while exemplifying time-honored values of dedication, cooperation and team pride.

We actively tap the digital platforms to promote awareness, trial and consumption of our brands and engage our customers through various social media platforms including Facebook, Instagram, YouTube, Twitter and Viber. Specific campaigns and relevant activations of brands are promoted online through online contests and *mom* and *pop* store promotions. We likewise lead conversations on social progressiveness through *San Mig Light* digital campaigns. We closely monitor our digital programs to determine their effectiveness through evaluating various metrics.

We place strong focus on new product rollouts that cater to changing consumer preferences and specific industry trends. Utilizing our extensive proprietary consumer data, we identify market opportunities in existing and adjacent categories and continuously evaluate the need to introduce new products and packaging innovations to capitalize on emerging market trends such as convenience, growth of new consumer segments, and health mindfulness. For example, we expect to increase the contribution of the increasingly popular "ready-to-eat" and "heat and serve" products to total food sales.

Continue to broaden our distribution footprint and enhance penetration across channels throughout the Philippines

We will sustain our strong growth momentum by broadening our outlet coverage through promotions and increased market penetration across all channels. Our sales force, together with our dealers and distributors, will put greater focus on serving diverse channels as the number of outlets grows across the Philippines.

We plan to improve our sales and distribution capabilities and increase nationwide penetration through product offerings tailored for each channel, and implementing innovative growth strategies. We aim to ensure and increase our presence in the growing modern trade channels, such as supermarkets and convenience stores in urban areas, by expanding our key accounts group, while simultaneously focusing on increasing visibility in selected on-premise outlets. For the beer business, we will further improve our trade efficiencies through penetration drives, ensuring product availability in targeted outlets and better outlet servicing. We will continue to promote *San Mig Light* in restaurants and bars in key cities, convert exclusive liquor outlets in hard liquor strongholds to carry beer products by leveraging our *Red Horse* brand, and foster growth of *San Miguel Pale Pilsen* in its core markets. For the spirits business, we have engaged in targeted distributor campaigns in Luzon (including Greater Manila), Visayas and Mindanao to gain market share from competing brandy and rum products. We will provide the necessary on-ground support to our sales teams to develop market presence in Visayas and Mindanao and to establish spirits dealerships in these underpenetrated areas once commercially viable. We also plan to expand the presence of our spirits brands in these regions by focusing on further growing *Vino Kulafu* in the Chinese wine category and penetrating the rum category through *Añejo Gold Medium Rum*. For our food business, we continue to develop our network of exclusive retail outlets such as *Magnolia Chicken Stations*, *Monterey Meatshops*, *Kambal Pandesal*, and *San Mig Food Ave,* among others, to showcase and integrate the breadth of our food products. We are also strengthening the Food Division presence in major wet market through direct servicing of the accounts.

We continue to develop or tap emerging channels, increase market penetration and capture growth through digital platforms across Beer and NAB, Spirits and Food Divisions. To support our distribution programs, we will continue to further improve our logistics capabilities and infrastructure through warehouse expansions, additional sales offices, and truck and logistics center enhancement initiatives.

Capacity expansions to support growing consumer demand

Capacity expansion in key regional markets is a critical element of our growth strategy to support increasing market demand nationwide, particularly in the provinces. In Luzon, we are expanding our production capacities in the beer and food businesses to enable us to keep pace with the growing market, as well as launching new product categories to address the consumers' growing demand and preference for convenience. We are also expanding our existing beer production facility located in Sta. Rosa, Laguna to serve the growing requirements in South Luzon. The Food Division is building two new feedmills in Luzon—one is located in Bataan and was commissioned in the first semester of 2018, and the second is located in Bulacan and is expected to be commissioned in the second semester of 2018. We have expanded our poultry breeder farm in Bataan and are constructing new poultry processing plants in Quezon. The construction of another flour mill located in Mabini, Batangas is also ongoing and this will be complemented by additional warehousing facilities. In April 2018, we started production in our new hotdog plant located in General Trias, Cavite. This is a new state-of-the-art facility located next to our existing processed meats plant and aptly supported by cold and dry storage facilities.

In Visayas and Mindanao, we plan to boost our production capabilities as economic development in these regions accelerates demand for food and beverage products. We are building a new beer production facility in Tagoloan, Misamis Oriental to serve Northern Mindanao and plan to construct a new grain terminal in Northern Mindanao to improve the shipping access of both raw materials for our food manufacturing facilities and finished goods such as flour. We are likewise constructing a new poultry and fresh meat processing plant and three new feedmills in the Visayas-Mindanao region.

We are expanding our manufacturing facilities to better meet the growing demand in our Animal Nutrition and Health, Protein, and Prepared and Packaged Food segments, and flour milling business. We also plan to transition from tolled to company-owned facilities to meet increasing demand from consumers.

As of June 30, 2018, we believe that the Spirits Division has sufficient capacity to meet growing demand.

Continued enhancement of profitability through cost saving initiatives

Our Beer and NAB Division has maintained an average Adjusted EBITDA Margins of 31.4% for the three year period of 2015 to 2017 (average Net Income Margin of 17.63% for the three year period), while our Spirits and Food Divisions Adjusted EBITDA Margins have been improving through the years and attained a 8.8% (Net Income Margin of 2.88%) and 11.2% (Net Income Margin of 5.88%) in 2017, respectively. Through efficiency and process innovations, productivity enhancements, cost management measures and continuous product portfolio reviews, we are able to rationalize unprofitable products and enhance price stability of our revenue streams. In the Beer and NAB Division, we will continue to broaden our base of suppliers and materials through second supplier program, multi-continent sourcing, evaluation of alternative materials, and undertaking process optimization initiatives. In the Spirits Division, growth in profit margins can come from better operational efficiencies, improvement in second-hand bottle retrieval, higher alcohol yield and strategic sourcing of alternative raw material to complement or replace sugarcane molasses, which is the main input in gin production. In the Food Division, we continue to conduct initiatives that allow the use of alternative, lower-cost raw materials such as the use of cassava as a substitute for corn, a key ingredient in the production of animal feeds. The Food Division also utilizes climate-controlled housing system for hogs and broilers which improves cost efficiency by increasing production cycles per farm per year, improving feeds consumed to weight ratio and deriving better harvest recovery. These, together with selective breeding innovations have resulted in larger chicken size thereby further enhancing cost efficiency. Part of the cost improvement program is reducing freight and handling costs by strengthening logistics capabilities and infrastructure and optimizing the use of grains terminals, silos and warehouses. Through continued cost-efficiency initiatives, we believe that we will be able to sustain high profitability margins across divisions.

Leverage existing platform and brand equity in international markets for further growth

Our products are exported to approximately 60 countries and territories across the globe. We operate nine international production facilities across China, Hong Kong, Thailand, Vietnam and Indonesia. We plan to leverage our international network to export products across divisions to access fast-growing markets in Asia and the rest of the world. As one of the largest integrated food and beverage platforms in the Philippines, we believe that we are well-positioned to expand internationally and build our global brand equity to achieve incremental growth, as we carefully plan and implement such international expansion strategies.

For the Beer and NAB Division, our strategy is to further strengthen our performance in countries where we operate supported by key growth areas such as Indonesia and Thailand. In Thailand, we plan to capitalize on potential growth in new cities, expand in modern trade, increase the availability of draft products and introduce new products. In Indonesia and Vietnam, we plan to benefit from the recovery in the wholesaler channel, expand the modern trade channel distribution and improve our product portfolio. We expect beer exports to grow further in Asia, the Middle East, the U.S., Australia and our new markets in Europe and Africa.

Exploit synergies across our combined and diversified consumer platform

Through the consolidation of the Beer and NAB, Spirits and Food Divisions, we intend to establish a powerful consumer platform with the potential to capture both cost and revenue synergies.

Cost synergies

We believe that the consolidation of the food and beverage businesses under SMFB will result in greater economies of scale and scope while allowing for increased opportunities to share resources and take advantage of established relationships across the beer and NAB, spirits and food businesses. Sourcing synergies from centralized planning and procurement across business units will reduce purchasing costs. In addition, we will capitalize on our extensive and long-standing supplier relationships under each of the divisions to strengthen cooperation and coordination among the divisions. By utilizing strategically located production and distribution centers across the entire footprint, we have scope to reduce overall costs and better optimize logistics across the food and beverage businesses. We can likewise explore the integration and coordination of market research, management and marketing initiatives, and other support systems to reduce corporate overhead costs. As an integrated platform, we will constantly strive to improve our management and production efficiency while implementing international best practices.

Revenue synergies

With the combined food and beverage business having access to approximately 700,000 outlets covering all channels throughout the Philippines, there is increased scope for further coordination across the various product lines. Leveraging our extensive distribution network, we expect that new products will quickly reach the market while improving trade efficiencies and customer loyalty through enhanced trade and promotion activities for our existing product portfolio. The various divisions may likewise benefit from enhanced market data sharing where we can consolidate market and consumer insights for each of the businesses to identify consumer trends and preferences. This would ideally minimize execution risk in the introduction and penetration of regional specific products and initiatives. Utilizing market insight data, we can also identify cross-selling opportunities among the beer and NAB, spirits and food businesses.

SMFB's adoption of a new logo introduces the brand's promise of "Celebrating Life"

The new SMFB brings together a broad range of category-leading, powerhouse brands. Our company is based in the Philippines but our brands are known internationally, reaching over 60 export markets worldwide. Our products and brands fulfill a broad range of consumer needs —we quench thirst, provide taste, refreshment, nourishment, and reflect the lifestyles of our consumers.

The new SMFB logo highlights the distinct strengths and contributions of our three businesses while paying special homage to our parent company, SMC.

CORPORATE STRUCTURE AND SMFB CONSOLIDATION

Prior to this Offering, SMC approved and implemented the SMFB Consolidation to rationalize its businesses and corporate organization. As part of the SMFB Consolidation, SMC transferred all of its 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI (collectively, the "**Exchange Shares**") to SMFB. In consideration for the Exchange Shares, SMFB issued 4,242,549,130 new common shares to SMC (the "**New Shares**", the transfer of the Exchange Shares and the issue of the New Shares being the "**Share Swap**").

In order to implement the SMFB Consolidation, our Board of Directors approved the following resolutions on November 3, 2017: (a) amendments to our articles of incorporation to (i) expand our primary purpose to include the beverage business, (ii) change our corporate name from "San Miguel Pure Foods Company Inc." to "San Miguel Food and Beverage, Inc.", and (iii) reduce the par value of our common shares from ₱10.00 per common share to ₱1.00 per common share (the "**Stock Split**"); and (iv) deny pre-emptive rights for issuances of dispositions of all common shares (items (i), (ii), (iii) and (iv) herein being the "**Initial Amendments**"); (b) further amendments to our articles of incorporation following the Philippine SEC approval of the Initial Amendments to increase our authorized capital stock *from* ₱2,060,000,000 divided into 2,060,000,000 common shares with a par value of ₱1.00 per common share and 40,000,000 preferred shares with a par value ₱10.00 per preferred share *to* ₱12,000,000,000 divided into 11,600,000,000 common shares with a par value ₱1.00 per common share and 40,000,000 preferred shares with a par value ₱10.00 per preferred share (the "**Capital Increase**"); (c) the Share Swap; (d) if required, the conduct of a tender offer for the SMB and GSMI shares held by minority shareholders; and (e) the listing on the PSE of the additional shares resulting from the Stock Split and the issuance of the New Shares to SMC pursuant to the Share Swap.

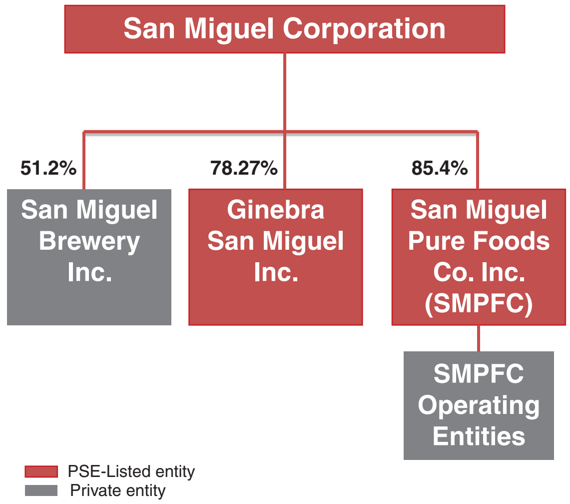
On January 18, 2018, we obtained stockholders' approval for the above corporate actions and the Philippine SEC approved our application to effect the Initial Amendments on March 23, 2018. On April 5, 2018, we entered into a Deed of Exchange of Shares with SMC to implement the Share Swap (the "**Deed of Exchange**"). On June 29, 2018, the Philippine SEC approved our application for the Capital Increase and the Share Swap was promptly implemented as of the same date. Following the issuance of the New Shares from the Capital Increase as part of the Share Swap, the SMFB Consolidation was completed as of June 29, 2018.

As part of the SMFB Consolidation, SMC transferred the Exchange Shares for 4,242,549,130 new SMFB common shares. On April 13, 2018, SMC and SMFB filed with the BIR an application for confirmation that the SMFB Consolidation is a tax-free exchange under Section 40(C)(2) of the Tax Code and an application for the issuance of a CAR for the transfer to SMFB of legal title to the Exchange Shares. The CAR for the Exchange Shares is necessary to transfer legal title to the Exchange Shares from SMC to SMFB, and register the transfer of ownership of such Exchange Shares in the books of SMB and GSMI.

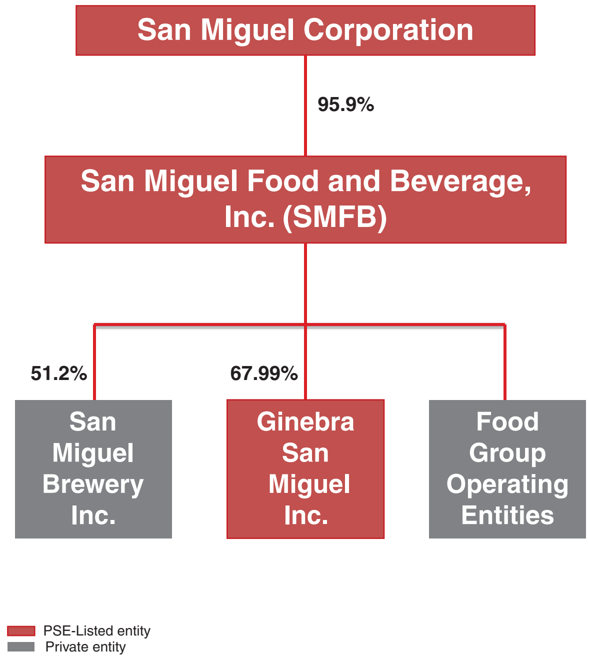
As of the date of this Prospectus, the CAR for the transfer of Exchange Shares to SMFB remains pending. Until the BIR issues the CAR, legal title to the Exchange Shares shall remain with SMC. Notwithstanding the same, beneficial ownership of the Exchange Shares has been transferred to SMFB pursuant to the Deed of Exchange.

Following the SMFB Consolidation, SMC owns 95.9% of the common shares of SMFB.

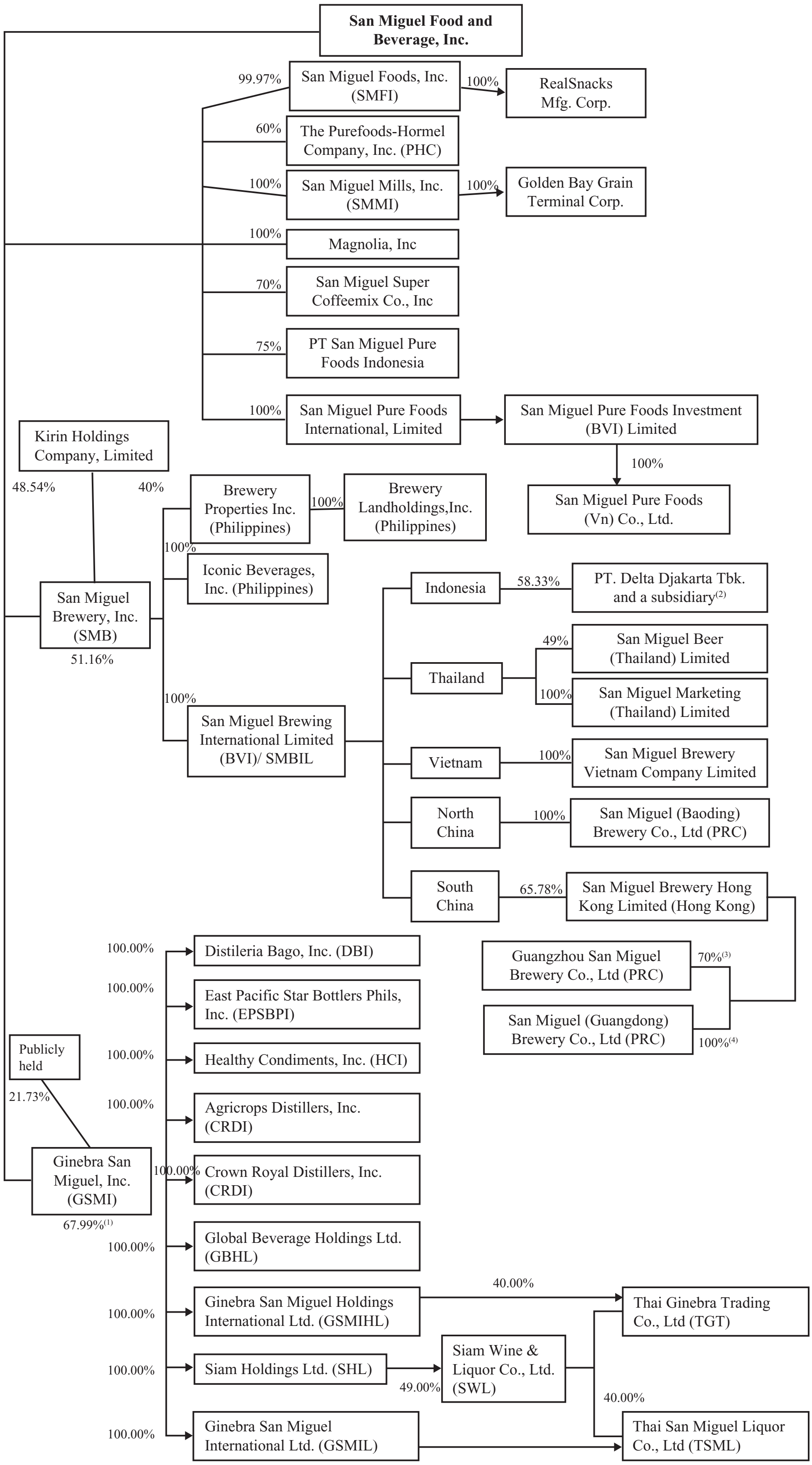
The chart below provides an overview of our corporate structure immediately prior to the SMFB Consolidation.



The chart below provides an overview of our corporate structure immediately after the SMFB Consolidation.



The chart below provides an overview of our corporate structure following the SMFB Consolidation, including our major operating subsidiaries, directly and indirectly held, and businesses as of June 30, 2018.



(1) Represents 216,972,000 common shares that were part of the Share Swap out of the total 319,114,726 issued and outstanding common and preferred shares.

(2) The subsidiary is PT Jangkar Delta Indonesia and is 90% owned of PT Delta Jakarta Tbk

(3) Effective ownership of SMB is 42.8% since Guangzhou San Miguel Brewery Co., Ltd. is held by San Miguel Brewery Hong Kong Limited (SMBHKL) through San Miguel Guangdong Limited which is 92.99% owned by SMBHKL.

(4) Effective ownership of SMB is 60.5% since San Miguel (Guangdong) Brewery, Ltd. is held by SMBHKL through San Miguel Shunde Holdings Limited, which is 92% owned by SMBHKL.

As a result of the SMFB Consolidation, the minimum public ownership ("**MPO**") of SMFB is below 10% which is the minimum public ownership requirement of the PSE for listed companies. Under the PSE's rules, a listed company which becomes non-compliant with the MPO (the "**MPO Rule**") on or after January 1, 2013 shall be suspended from trading for a period of not more than six months and shall be delisted if it remains non-compliant after the suspension period. A listed company which becomes non-compliant may file an application before the PSE requesting for a grace period to comply with the MPO Rule.

The issuance of the new SMFB common shares in favor of SMC upon the approval by the Philippine SEC of the Company's increase in authorized capital stock as of June 29, 2018, resulted in SMFB's public ownership level to fall below the MPO. On July 6, 2018, the PSE suspended the trading of SMFB's common and preferred shares until SMFB secures a favorable ruling from the BIR on the appropriate taxes to be imposed on the trades of SMFB shares through the PSE during the period not exceeding six months. On July 20, 2018, SMFB received a BIR ruling confirming that the SMFB Consolidation and the follow-on offer of common shares and all trades of SMFB shares through the PSE during the period not exceeding six months are not subject to capital gains tax of 15% under Revenue Regulations (RR) No. 16-2012 as amended by RR No. 11-2018, and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) shall be imposed on all trades through the PSE of SMFB Shares during the same period. The PSE lifted the trading suspension of SMFB shares on July 23, 2018. On July 27, 2018, the PSE granted the Company an exemption from the MPO requirement until December 31, 2018 to allow the Company to take remedial action to meet the MPO requirement.

Amendment to the Articles of Incorporation

On July 5, 2018, the Board of Directors approved the amendment to the articles of incorporation to increase the number of directors from nine to 15. On August 8, 2018, the Board approved the nomination of Ms. Aurora T. Calderon, Mr. Ferdinand K. Constantino, Mr. Roberto N. Huang, and Mr. Emmanuel B. Macalalag[*] to occupy four out of the six Board seats that will be created from the amendment of the articles of incorporation. The amendment and the election of the new directors are subject to the approval by the Philippine SEC.

BEVERAGE BUSINESS

Our beverage business consists of brewing, distilling, selling, marketing and distributing beer, non-alcoholic beverages and spirits. We conduct our beverage business through our majority-owned subsidiaries, SMB and its subsidiaries, which comprise our Beer and NAB Division, and GSMI and its subsidiaries, which comprise our Spirits Division. As of the date of this Prospectus, SMFB holds 51.2% and 75.8% of the outstanding common capital stock of SMB and GSMI, respectively.

SMB is the largest producer of beer in the Philippines and is the largest contributor to our beverage business, accounting for 84.4% and 83.8% of our total beverage business sales for the year ended December 31, 2017 and the six-month period ended June 30, 2018, respectively. GSMI is a leading spirits producer in the Philippines and largest gin producer globally by volume, according to GlobalData, accounting for 15.6% and 16.2% of our total beverage business sales for the year ended December 31, 2017 and the six-month period ended June 30, 2018, respectively.

Our beverage business had combined sales of ₱98,541 million, ₱115,716 million, ₱134,141 million (US$2,507 million) for the years ended December 31, 2015, 2016 and 2017. For the six-month period ended June 30, 2017 and 2018, we had consolidated sales of ₱63,183 million and ₱74,555 million (US$1,393 million), respectively.

[*] Mr. Cirilo P. Noel was initially included as one of the five nominees for directors who will occupy five of the six Board seats to be created from the amendment of the articles of incorporation. Subsequently, Mr. Cirilo P. Noel was elected as an Independent Director to replace Mr. Rolando L. Macasaet who tendered his resignation on September 12, 2018, and to serve for the latter's unexpired term.

The following table sets forth our sales by division for the periods indicated:

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		2016		2017			2017		2018		
	₱	%	₱	%	₱	US$(2)	%	₱	%	₱	US$(2)	%
Sales(1)	(in millions, except for percentages)											
Beer and NAB Division	₱82,371	83.6	₱ 97,156	84.0	₱113,250	US$2,117	84.4	₱53,060	84.0	₱62,509	US$1,168	83.8
Spirits Division	16,170	16.4	18,560	16.0	20,891	390	15.6	10,123	16.0	12,046	225	16.2
Total	**₱98,541**	**100.0**	**₱115,716**	**100.0**	**₱134,141**	**US$2,507**	**100.0**	**₱63,183**	**100.0**	**₱74,555**	**US$1,393**	**100.0**

Notes:

(1) Represents the external sales and excludes inter-division sales.

(2) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

The following table sets forth our income from operations by division for the periods indicated:

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		2016		2017			2017		2018		
	₱	%	₱	%	₱	US$(1)	%	₱	%	₱	US$(2)	%
Operating Results(2)	(in millions, except for percentages)											
Beer and NAB Division	₱22,637	97.5	₱27,195	96.7	₱31,168	US$583	96.0	₱14,044	96.2	₱17,315	US$324	95.3
Spirits Division	571	2.5	917	3.3	1,307	24	4.0	551	3.8	862	16	4.7
Total	**₱23,208**	**100.0**	**₱28,112**	**100.0**	**₱32,475**	**US$607**	**100.0**	**₱14,595**	**100.0**	**₱18,177**	**US$340**	**100.0**

Notes:

(1) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

(2) Operating results is determined by deducting selling and administrative expenses from gross profit.

Beer and NAB Division

We are the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets, with a total domestic market share of approximately 92.7% in 2017, according to GlobalData. According to the same source, our beer brands include the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen, Red Horse, San Mig Light* and *Gold Eagle*. The Beer and NAB Division also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice and carbonates. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 128 years and was first produced by *La Fabrica de Cerveza de San Miguel*, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC.

In 2009, Kirin acquired a 48.39% shareholding in SMB, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer and purchase from public shareholders. SMC retained majority ownership of SMB with shareholding of 51.0%. In connection with Kirin's investment in SMB, Kirin and SMC entered into a shareholders' agreement providing for, among others, corporate governance and approvals, cooperation in the conduct of the business, restrictions on the transfer of SMB shares and other customary arrangements. SMFB adhered to the shareholders' agreement with Kirin and agreed to be bound by the same terms and conditions as a party to the said shareholders' agreement. As of the date of this Prospectus, SMFB owns 51.2% and Kirin owns 48.5% of SMB.

In 2015, SMB acquired the NAB business from GSMI, which acquisition includes property, plant and equipment finished goods inventories and other inventories comprising containers on hand, packaging materials, goods-in-process and raw materials used in the NAB business. The acquisition is in line with the multi-beverage strategy of SMB that seeks to expand its product portfolio in the non-alcoholic beverage market, among others. This transfer will also benefit from SMB's RGB system, strong distribution network and competitive positioning.

The Beer and NAB Division operates six production facilities that are strategically located across the Philippines with an aggregate production capacity of 18.8 million HL/year. International operations are conducted through SMB's wholly-owned subsidiary, San Miguel Brewing International Limited ("**SMBIL**"), which in turn has production facilities located in six sites outside the Philippines (two in China, and one production facility each in Hong Kong, Indonesia, Thailand and Vietnam) with an aggregate production capacity of 7.9 million HL/year. In total, the Beer and NAB Division's beer production capacity is 26.7 million HL/year. In addition to producing the core *San Miguel* beer brands marketed internationally, the international operations also produce local brands such as *Blue Star*, *Anker* and *Dragon,* which are local brands in various jurisdictions. Beer products are exported to almost 60 countries and territories across the globe. International operations accounted for 11.5% and 10.1% of the total sales of the Beer and NAB Division for the year ended December 31, 2017 and the six-month period ended June 30, 2018, respectively.

The table below sets forth the sales by volume of the Beer and NAB Division for the periods indicated:

	For the years ended December 31,			For the six-month period ended June 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Beer (in million equivalent cases)	205.5	230.4	259.7	124.0	138.0
NAB (in million physical cases)	2.502	4.425	5.358	2.636	2.054

For the years ended December 31, 2015, 2016 and 2017, sales of the Beer and NAB Division were ₱82,371 million, ₱97,156 million, ₱113,250 million (US$2,117 million), respectively, and net income was ₱13,524 million, ₱17,665 million, ₱20,718 million (US$387 million), respectively.

For the six-month period ended June 30, 2017, the Beer and NAB Division had sales of ₱53,060 million and net income of ₱9,400 million compared to sales of ₱62,509 million (US$1,168 million) and net income of ₱11,803 million (US$221 million) for the six-month period ended June 30, 2018.

Products and Brands

In the Philippines, we believe that beer has become synonymous with *San Miguel*, a brand associated with quality products for over 128 years. In particular, we believe that Filipinos readily associate beer with a *San Miguel* product that embodies the attributes and values they look for in their beverage.

We consider the strong brand associations and imagery of *San Miguel* to be important selling points for our beer products. We believe that our Beer and NAB Division has differentiated its product offerings through effective marketing programs and that its diverse beer offerings ensure that there is a *San Miguel* product that caters to each consumer's specific tastes and preferences.

Beer products are marketed under the following brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Flavored Beer, San Miguel Super Dry*, *San Miguel Premium All-Malt, Cerveza Negra*, *San Mig Zero* and *Gold Eagle*. The Beer and NAB Division is also the exclusive distributor of *Kirin Ichiban* in the Philippines. The Beer and NAB Division's non-alcoholic beverage portfolio includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit Drink* (ready-to-drink juice), *San Mig Cola* (carbonates) as well as *Cali*, a sparkling malt-based non-alcoholic drink. As of June 30, 2018, 29 SKUs of beer and 11 SKUs of non-alcoholic beverages are produced by the domestic operations of the Beer and NAB Division.

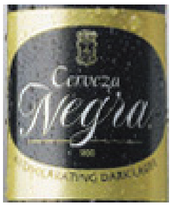
The following table sets forth the market share of the top four leading brands for beer in the Philippines by volume:

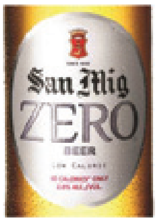
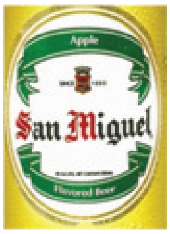
Brand	**2015**	**2016**	**2017**
		%	
Red Horse	59.5	61.1	63.3
San Miguel Pale Pilsen	13.4	13.4	12.9
San Mig Light	7.9	7.8	7.5
Gold Eagle	7.5	6.9	6.4

Source: GlobalData

The Beer and NAB Division categorizes products into four segments: (1) Premium, (2) Mainstream, (3) Economy, and (4) Non-Alcoholic. The Premium beer products cater to upscale markets specifically in highly urbanized areas, while beer products in our Mainstream segment serves the majority of the population or the mass market. The Economy segment caters to the low-end beer consuming market.

The following table sets forth a brief description of the principal products in our domestic Beer and NAB Division, organized by segment:

Segment	Brand / Product	Description	Packaging	Suggested Retail Price (₱)
Premium		San Miguel Super Dry is the first dry beer in the Philippine market. It is known for the strong impression of its aromatic hop: light to medium body and accompanied by a bitterness that is just right. ABV: 5% Ranked #1 in 2017 among Premium beers in the market, according to GlobalData.	330ml bottle 330ml can 15L Keg	45.00 per 330ml bottle
Premium		San Miguel Premium All-Malt has a malty flavor with pleasant hoppy notes. It is full-flavored with a smooth balanced bitterness that is just right. It is slightly sweetish in taste and has medium to full body. ABV: 5%	330ml bottle 330ml can 15L Keg	48.00 per 330ml bottle
Premium		Cerveza Negra is a full-bodied dark lager with a balance of moderate bitterness and sweetish roasted malt bouquets. ABV: 5%	330ml bottle 15L Keg	45.00 per 330ml bottle
Premium		Kirin Ichiban (distributed under license from Kirin) is brewed only from the first press of the wort which gives its unique taste and flavor ABV: 5%	330ml bottle 330ml can	65.00 per 330ml bottle
Mainstream		Red Horse Beer has a distinctive, full flavored taste and extra satisfying strength of a world class premium strong beer. ABV: 6.9% Ranked #1 in 2017 among Mainstream beers in the market, according to GlobalData.	330ml/ 500ml/ 1000ml bottle 330 ml can	30.00 per 330ml bottle
Mainstream		San Miguel Pale Pilsen is a pale golden lager with a clean, hoppy finish. It has a medium body, with a distinct bitter hop character. ABV: 5% Ranked #2 in 2017 among Mainstream beers in the market, according to GlobalData.	320ml/ 330ml/ 1000ml bottle 330ml can, 30L and 50L kegs	30.00 per 320 ml bottle / 34.00 per 330ml bottle

Segment	Brand / Product	Description	Packaging	Suggested Retail Price (₱)
Mainstream		San Mig Light is the first light/low-calorie beer in the market. ABV: 5% Ranked #3 in 2017 among Mainstream beers in the market, according to GlobalData.	330ml bottle 330ml can, 30L and 50L kegs	32.00 per 330ml bottle
Mainstream		San Mig Zero is the first of its kind in the Philippine market – formulated and brewed to offer the lowest calories (only 60 calories), the lowest carbohydrate content and zero sugar content, while still offering the refreshing taste of beer. ABV: 3%	330ml bottle	32.00 per 330ml bottle
Mainstream		San Miguel Flavored Beer is the first fruit flavored alcoholic malt beverage in the country and comes in apple and lemon flavors. ABV: 3%	330ml bottle 330 ml can	28.00 per 330ml bottle
Economy		Gold Eagle has a pale amber hue and is moderately light-bodied. It is brewed to have an "easy-drinking" character. ABV: 4.5% Ranked #1 in 2017 among Economy beers in the market, according to GlobalData	320ml/ 1000ml bottle	25.00 per 320ml bottle
Non-Alcoholic/Mainstream		Cali is a line of clear, non-alcoholic malt-based beverages with fruit flavors and slight effervescence. Cali has three variants: Cali Classic Sparkling Pineapple Drink, Cali Ice Apple and Cali Light (low-calorie).	330ml bottle 330ml can	25.00 per 330ml bottle
Non-Alcoholic/ Mainstream		Magnolia Health Tea is a flavored tea drink with anti-oxidants that help boost energy and comes in apple, lemon and strawberry flavors.	250ml bottle	8.00 per 250ml bottle

Segment	Brand / Product	Description	Packaging	Suggested Retail Price (₱)
Non-Alcoholic/ Mainstream		Magnolia Fruit Drink is a non-carbonated flavored ready-to-drink juice drink packed with vitamins that give you an added boost of energy. It comes in grape and orange flavors.	250ml bottle	8.00 per 250ml bottle
Non-Alcoholic/ Mainstream		A delicious carbonated cola flavored soft drink that delivers refreshing satisfaction at a price that is refreshingly affordable.	250ml bottle	8.00 per 250ml bottle

Through SMBIL, we offer the *San Miguel Pale Pilsen* and *San Mig Light* brands in Hong Kong, China, Thailand, Vietnam, Indonesia and most markets where we export our beer products, *Red Horse* in Thailand, China, Hong Kong, Vietnam and selected export markets, and *Cerveza Negra* in Hong Kong, China, Vietnam, Indonesia, U.S., Thailand, South Korea and Taiwan. We also offer the following locally available brands: *Valor* (Hong Kong and China), *Blue Ice* (Hong Kong), *Dragon* and *Guang's* (South China), *Blue Star* (North China), *W1N Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

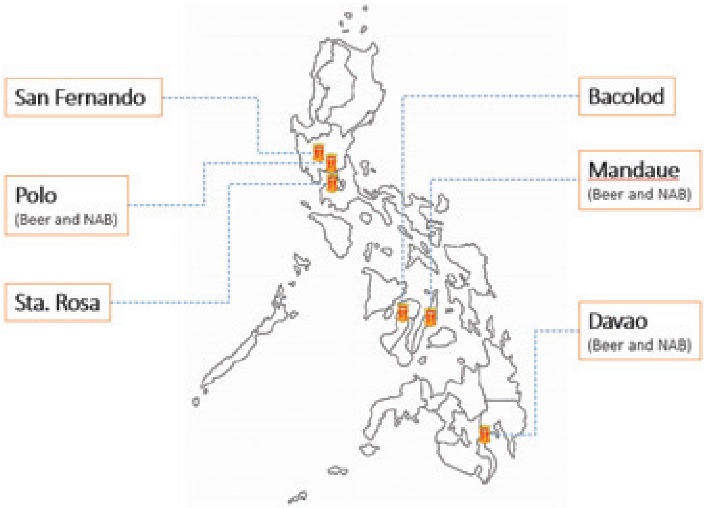
Over the years, our beer products have received numerous international awards for product quality and excellence. *San Miguel* beer brands are consistent Monde Selection winners. Monde Selection is an international institute based in Belgium founded in 1961 which evaluates, tests and awards consumer products with its quality label. We consider "Monde Selection" an exceptional advertising asset and serves as a recognized quality assurance for consumers. Since 2000, *San Miguel* beers have received an aggregate of 270 grand gold, gold, silver and bronze medals including 45 trophies and awards from Monde Selection. The latest awards in 2017 included gold medals for *Super Dry*, *Cerveza Negra*, *San Mig Light*, *Red Horse* and *Anker* and silver medals for *San Miguel Premium All Malt*, *San Miguel Pale Pilsen* and *San Mig Light*.

Production Facilities and Raw Materials

Production Facilities — Domestic Operations

The Beer and NAB Division maintains a network of production facilities rather than one central consolidated brewing and production facility. Currently, the Beer and NAB Division owns and operates six production facilities in the Philippines located in each of the three main island groups of Luzon, Visayas and Mindanao, namely: (1) the Polo facility located in the National Capital Region and established in 1947; (2) the Sta. Rosa facility located in Laguna Province and established in 2011; (3) the San Fernando facility located in Pampanga Province and established in 1981; (4) the Mandaue facility located in Cebu Province and established in 1968; (5) the Bacolod facility located in Negros Province and established in 1990; and (6) the Davao facility located in Davao Province and established in 1995. The domestic production facilities have a total production capacity of 18.2 million HL, 18.3 million HL and 18.8 million HL in 2015, 2016 and 2017, respectively. Since 2015, the overall utilization rate of domestic production facilities, calculated as the quotient of production divided by capacity (equivalent to three shifts composed of 8-hour shifts each or 5.5 to 6 days per week) has been increasing. For the years ended December 31, 2015, 2016 and 2017 and for the six-month period ended June 30, 2018, the overall utilization rate was approximately 75%, 86%, 94% and 96%, respectively. We are currently expanding our domestic capacity to add approximately 7.6 million HL to our total production capacity and we expect to grow capacity by 8.5% in 2018, 10.9% in 2019, and 16.7% in 2020. The Beer and NAB Division expects to incur capital expenditures of up to approximately ₱12.0 billion until the end of 2019, primarily for the construction of a new beer production facility located in Tagoloan, Misamis Oriental in Northern Mindanao and Sta. Rosa, as well as for repairs and maintenance. This expected amount reflects the Beer and NAB Division's estimates and strategy as of the date of this Prospectus. The capital expenditures may change as projects are reviewed, or contracts are entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the operating performance and cash flow of the Beer and NAB Division and its ability to obtain financing on terms satisfactory to management. The Sta. Rosa production facility will have an additional packaging line which is targeted to be completed by the fourth quarter of 2018, while its brewing facility is aimed for completion by the fourth quarter of 2019. On the other hand, the new brewery in Tagoloan, Misamis Oriental is expected to commence operations by the second half of 2019. While production at each production facility is typically targeted to serve the surrounding geographical area, the Beer and NAB Division can shift production from one production facility to another if operational issues or demand changes require it.

For the years ended December 31, 2015, 2016, 2017 and for the six-month period ended June 30, 2018, the Beer and NAB Division incurred capital expenditures for repairs and maintenance in the amounts of ₱1,026 million, ₱1,218 million, ₱1,747 million and ₱1,241 million, respectively. Of the total capital expenditures from 2015 to 2017, an average of 94% comprised expenses on repairs and maintenance.



The Beer and NAB Division employs brewing equipment and technology sourced from leading manufacturers in Germany, the U.S., Japan and Italy. These include modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the production facilities is equipped with automated machines and equipment capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All the production facilities are compliant with certain ISO requirements such as the ISO 9001:2015 and ISO 14001:2015, as assessed by its pool of technical assessors and are also certified by the Food Development Center, an office under the Philippine National Food Authority, as compliant to food safety requirements of current GMP–HACCP.

Production Facilities — International Operations

The Beer and NAB Division owns and operates six production facilities outside of the Philippines – two in China and one each in Hong Kong, Indonesia, Thailand and Vietnam, with an aggregate production capacity of 7.4 million HL/year for 2015 and 2016 and 7.9 million HL/year in 2017. For the years ended December 31, 2015, 2016 and 2017 and for the six-month period ended June 30, 2018, the overall utilization rate was approximately 34%, 33%, 33% and 31%, respectively.

The two facilities in China are located in Baoding City, Hebei Province and Longjiang Town, Shunde District in Guangdong Province and were established in 1994 and 1996, respectively. The Hong Kong facility is located in Yuen Long, Hong Kong and was established in 1996. The Indonesian facility is located in Bekasi Timur, Indonesia and was established in 1993. The Vietnamese facility is located in Khanh Hoa Province, Vietnam and was established in 1995. The Thailand facility is located in Pathum Thani, Thailand and was established in 2004.

Raw Materials

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts can also be used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit juice concentrates, tea extract, flavors, colorants and vitamins. All of these commodities have experienced, and may experience, price fluctuations. The Beer and NAB Division sources its key raw materials for its beer using a set of standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts such as corn and sugar, which are sourced domestically, and imported tapioca. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

Terms with key raw material suppliers provide for a supply period of approximately one year to five years with a pre-determined fixed and formula-based price for the duration of the supply relationship. In addition, depending on considerations such as price trends and the quality of raw materials, spot purchases are made in the open market. To ensure the quality of its products, the Beer and NAB Division closely monitors the quality of its raw materials.

Packaging materials are sourced primarily from the San Miguel Yamamura Packaging Corporation ("**SMYPC**"), Can Asia, Inc., and San Miguel Yamamura Asia Corporation (the "**Packaging Group**"). SMYPC is a 65% owned subsidiary of SMC (with 35% owned by Nihon Yamamura Glass Co., Ltd.) and the major source of packaging requirements of SMC's business units. SMYPC is one of the largest and leading packaging companies in the Philippines, engaged in the manufacture and sale of glass, metal, paper, flexibles, plastics, and other packaging products. Packaging costs are also a significant factor in the manufacture of beer. We sell most of our beer products in RGBs of varying sizes and shapes, as well as aluminum cans and kegs. For the year ended December 31, 2017 and the six-month period ended June 30, 2018, over 90% of the RGBs used for beer were retrieved, which we believe is the most important and popular packaging for beer in the Philippines. SMB's efficient RGB system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps in management of cost. The durable nature of the RGBs and plastic crates results in an average usage of approximately 40 to 60 cycles over a span of approximately five to 10 years. Retail outlets selling SMB's products collect deposits on these bottles when customers buy the beer. For bottles returned, the corresponding deposit is refunded to the customer. New glass bottles and plastic crates are also purchased to support increasing sales and to replace broken and scuffed bottles.

Beer in aluminum cans are less popular mainly because they are more expensive, although the volume of this package has been increasing in recent years with greater availability and the expansion of modern trade. Kegs for draft beer, which come in 15, 30 and 50 liter sizes, are very limited.

Deep wells provide the water supply needed for production in domestic production facilities, except for water used at the Polo Brewery, which is supplied by water utility service providers in the Philippines. For international operations, water is sourced through deep wells, water utility service providers or government-owned water facilities.

Sales and Distribution

Domestic Market

The Beer and NAB Division markets, sells and distributes its products principally in the Philippines and maintains an extensive distribution system, which encompasses the six strategically located production facilities across the country, a broad network of sales offices and warehouses supported by dealerships and third-party service providers.

The strategic locations of the production facilities reduce overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country, and help ensure that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the six production facilities by contract haulers and, in certain circumstances, by a fleet of boats, to retailers and consumers generally within five to seven days from production, ensuring quality and sufficient stocks wherever and whenever *San Miguel* beer products are needed. As of June 30, 2018, products of the Beer and NAB Division are distributed and sold at over 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, *mom* and *pop* stores and convenience stores accounting for 91.5% of total outlets and on-premise outlets such as bars, restaurants and hotels accounting for 8.5% of total outlets through over 50 sales offices and approximately 500 dealers throughout the Philippines.

For distribution efficiency, the Beer and NAB Division works closely with dealers and provides assistance such as systems and trainings related to dealer operations. The Beer and NAB Division enters into distribution agreements with its dealers that specify the territory in which each dealer is permitted to sell products, the brands that the dealer is permitted to sell, the performance standards as applicable, procedures to be followed and circumstances upon which distribution rights may be terminated. Distribution rights, performance standards and sales procedures are developed by the Beer and NAB Division and implemented in tandem with dealers to ensure high quality of services. The extensive dealer network and efficient distribution system and also support the high return rate of the Beer and NAB's RGB system. See "*—Production Facilities and Raw Materials—Raw Materials*."

The Beer and NAB Division has also formed a key accounts group to handle accounts management and business development of modern trade accounts such as supermarkets and convenience stores, and to increase visibility in selected on-premise outlets. As of June 30, 2018, the Beer and NAB Division, together with its dealers and account specialists, had a sales force of approximately 1,800 in the Philippines. The Beer and NAB Division continues to implement programs to strengthen its sales capabilities and systems.

SMB also operates a delivery service in Metro Manila and selected cities through its "632-BEER" (632-2337) hotline delivery program that allows customers to place orders by calling, text messaging or ordering online (www.smbdelivers.com). The delivery service taps into emerging segments such as consumers located at home or in other private spaces that prefer to directly place orders for beer.

International Market

International operations are conducted in Hong Kong, Indonesia, Thailand, China and Vietnam through SMBIL, a subsidiary of SMB. Subsidiaries of SMBIL include San Miguel Brewery Hong Kong Limited, which is listed on The Stock Exchange of Hong Kong Limited under stock code 236 and PT Delta Djakarta Tbk, which is listed on the Indonesia Stock Exchange under DLTA.JK.

There are two production facilities in China and one production facility located in each of Indonesia, Vietnam, Thailand and Hong Kong, with an aggregate capacity of approximately 7.9 million HL/year as of December 31, 2017. Third party service providers transport the products produced from these production facilities to customers, consisting of dealers, wholesalers, retail chains, or outlets, depending on the market. A total sales force of approximately 464 employees are maintained in these five countries with 12 sales regions in China, six in Indonesia and Thailand and four in Vietnam. In Thailand, all local sales are done through San Miguel Marketing (Thailand) Limited, a subsidiary of SMBIL.

In addition, SMBIL exports beer products to approximately 60 countries and territories globally in North America, South America, Europe, Africa, the Middle East, Australia and the rest of Asia. Exports are sold under various beer brands as well as under private labels. International operations accounted for 11.5% and 10.1% of the Beer and NAB Division's total sales for the year ended December 31, 2017 and the six-month period ended June 30, 2018, respectively.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the San Miguel brand for beer in certain Western European and Mediterranean countries and is not affiliated with either SMB or SMC.

Research and Development

The Beer and NAB Division employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence.

Technology and processes are constantly updated and NPD is ensured through the research and development of beer and NAB products. R&D activities are conducted in a technical center and pilot plant located in one of its production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and NAB product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025:2005. To promote technical manpower development, the Beer and NAB Division runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience with SMB.

The Beer and NAB Division continues to pursue innovation to support growth and market leadership. New products and variants are explored and attuned to the evolving consumer profile and preferences. For example, in 2010, the NPD team formulated the first flavored beer in the market which is the *San Miguel Flavored Beer* in apple and lemon flavors to appeal to younger drinkers. *San Miguel Flavored Beer* has been posting strong growth since its launch.

For the years ended December 31, 2015, 2016 and 2017, the Beer and NAB Division spent ₱76 million, ₱90 million and ₱115 million (US$2 million) on R&D activities, representing 0.09%, 0.08% and 0.10% of sales for the same periods, respectively. For the six-month period ended June 30, 2017 and 2018, the Beer and NAB Division spent ₱40.6 million and ₱31.9 million (US$0.6 million) on R&D activities, representing 0.08% and 0.05% of sales for the same periods, respectively.

Marketing

The Beer and NAB Division actively pursues marketing initiatives to promote new products, as well as to maintain and enhance brand awareness of existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, the conduct of various consumer and trade promotions and merchandising activities. Various channels such as television, radio, print and digital platforms are tapped to reach targeted segments. The Beer and NAB Division also utilizes outdoor billboards and posters in off-premise retail outlets, restaurants, bars and other on-premise outlets.

The Beer and NAB Division holds nationwide trademark, signature events and sponsors numerous other events. *San Miguel Beer Oktoberfest* has been the brand's flagship event for over three decades. This beer festival takes place at numerous locations across the Philippines, offers beer and features popular bands, celebrities, games and raffle promos. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition, to gather the best beer drinkers in the Philippines. SMB also holds *San Miguel Pale Pilsen*'s nationwide *Sarap Mag Babad* or *Taste of Summer* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines. For *San Mig Light*, SMB conducts electronic dance music-related initiatives such as *Party All Night* and *DJ Spin-Off* events. Aimed at younger drinkers, *San Miguel Flavored Beer* has a school fair event known as *SMFBU Fun Fair ng Barkada or Fun Fair with Friends*. Finally, digital placements and targeted visibility program are conducted in upscale outlets to promote specialty brands such as *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

In the Philippine beer market, the major competitor for beer products is AB Heineken Philippines, Inc. ("**ABHP**"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc. and Heineken International B.V. ABHP offers a portfolio of local beers, foreign beers, some of which are produced under license from foreign brewers, and alcomix beverage products.

ABHP competes mainly through licensed Colt 45, a strong alcohol brand which is positioned against SMB's strong alcohol beer *Red Horse*, and local Beer na Beer in the economy segment and Brew Kettle in the mainstream segment. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started marketing and selling imported Heineken beer and Tiger beer in the country, competing with SMB's premium and mainstream brands, respectively.

ABHP also offers Tanduay Ice, which is a line of alcopop beverages positioned similar to beer. Competition from imported beers and local craft beers is minimal. These products comprise a small portion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities.

Our beer products also compete with other alcoholic beverages, primarily brandy, gin, rum and alcopops which are close substitutes to beer. In the beer industry—and more generally the alcoholic beverage industry—competitive factors usually include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. We believe that the market leadership, size and scale of operations, and extensive distribution network in the Philippines provide our Beer and NAB Division with significant competitive advantages in the Philippines.

In the non-alcoholic beverage market, competition is from established players and brands in ready-to-drink juice and ready-to-drink tea. For example, Zest-O, Tropicana Twister and C2 compete with *Magnolia Fruit Drink*, while Lipton and Nature's Spring Iced Tea compete with *Magnolia Healthtea.*

In its main international markets, our beer products contend with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand and Vietnam), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong and China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser (Hong Kong and China) Snow (China), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

Taxation

In the Philippines, excise tax represents a significant component of beer production costs. The National Internal Revenue Code of 1997 ("**Tax Code**") provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the Bureau of Internal Revenue ("**BIR**") requires establishments subject to such taxes such as the Company to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Tax Code, excise tax on fermented liquor is determined per liter of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB's production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per liter on all fermented liquors, except those affected by the "no downward classification clause", which was a change from the two-tier tax structure imposed in 2013. Several of SMB's products were affected by the "no downward reclassification" clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

The Beer and NAB Division's beer products are also subject to excise tax in the markets in which the international subsidiaries operate.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights used by the Beer and NAB Division in respect of its beer and malt-based beverage products (including *Cali*) are either registered or pending registration in the name of Iconic Beverages, Inc. ("**IBI**") in the Philippines. The brands, trademarks and patents used by the Beer and NAB Division in respect of its non-alcoholic beverage products (other than *Cali*) are licensed from SMC. Most of the brands, trademarks and other intellectual property rights used in its international operations are registered or pending registration in the name of SMBIL, with certain local brands in the name of SMBIL's subsidiaries in Hong Kong and Thailand. IBI and SMBIL are wholly-owned subsidiaries of SMB.

Quality Control, Health, Safety and Environmental Matters

The domestic operations of the Beer and NAB Division are subject to various regulations concerning health, safety and protection of the environment.

The FDA, an agency under the DOH, administers and enforces the law, and issues rules and circulars on safety and good quality supply of food, drug and cosmetic to consumers, as well as regulates the production, sale, and traffic of the same to protect the health of the people. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers which provide for the minimum operating standards, procedures and requirements in respect of the operations and facilities of establishments engaged in the manufacture, packing, repacking or holding of food products. The Consumer Act of the Philippines seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer, including means of redress in cases of violations of such rights. For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Beer and NAB Division is also subject to extensive environmental laws and regulations implemented by the DENR, including the Philippine Environmental Impact Statement System, which is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. An entity that undertakes any environmentally critical project or operates in any environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate ("**ECC**"). This ECC requirement applies to all production facilities. Other environmental laws and regulations applicable to domestic operations of the Beer and NAB Division include the Philippine Clean Water Act of 2004, the Philippine Clean Air Act, the Water Code, the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and the Biological Solid Management Act of 2000. See "*Regulatory and Environmental Matters—Environmental Matters*."

International operations are also regulated by various applicable laws in their respective markets including the regulations on food labeling in China and Hong Kong and environmental regulations, among others.

Spirits Division

Through GSMI, our Spirits Division is a leading spirits producer in the Philippines and the largest gin producer internationally by volume, according to GlobalData. It is the market leader in gin and Chinese wine in the Philippines having a market share of 95.3% and 64.5%, respectively, as of December 31, 2017, according to GlobalData. GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and other spirits and enjoys 33.0% market share in spirits as of December 31, 2017, according to GlobalData.

The table below sets forth the sales by volume of the Spirits Division for the periods indicated:

	For the years ended December 31,			For the six-month period ended June 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Spirits (in million cases)	23.02	25.18	27.74	13.59	15.65

Ginebra traces its roots to a family-owned Spanish era distillery that introduced the *Ginebra San Miguel* brand in 1834. The distillery was then acquired by *La Tondeña Incorporada* in 1924, and thereafter by SMC in 1987 to form *La Tondeña Distillers, Inc*. In 2003, the company was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand. For the year ended December 31, 2017 and the six-month period ended June 30, 2018, GSMI's flagship brand, *Ginebra San Miguel*, contributed 89.1% and 88.8%, respectively, to GSMI's total sales.

The Spirits Division operates one distillery and five bottling plants in the Philippines with a combined annual distillation capacity of 80 million liters and bottling capacity of 63.3 million cases. Each case generally contains either 24 units of 350mL each or 12 units of 700mL each. The distillery of Distileria Bago, Inc. ("**DBI**"), which is a wholly-owned subsidiary of GSMI, is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines. Its distribution network has nationwide coverage reaching approximately 141,000 outlets across the archipelago through 94 dealer sites and 15 sales offices as of June 30, 2018.

GSMI is a public company listed on the PSE under the stock symbol "GSMI" and will continue to be listed following the Offering. The market capitalization of GSMI was ₱6,142 million (US$115 million), with a common share price of ₱21.45 as of June 30, 2018.

For the years ended December 31, 2015, 2016 and 2017, GSMI's sales were ₱16,170 million, ₱18,560 million and ₱20,891 million (US$390 million), respectively, and for the years ended December 31, 2016 and 2017, the net income was ₱361 million and ₱602 million (US$11 million), respectively. For the year ended December 31, 2015, net loss of ₱422 million was recorded.

For the six-month period ended June 30, 2017, sales were ₱10,123 million and net income was ₱265 million compared to sales of ₱12,046 million (US$225 million) and net income was ₱506 million (US$9 million) for the six-month period ended June 30, 2018.

Products and Brands

Our Spirits Division is one of the major players in the liquor market, given its diverse portfolio of products with core brands such as *Ginebra San Miguel* and *Vino Kulafu*, which continue to lead in the gin and Chinese wine categories, respectively, according to GlobalData.

The Spirits Division believes that consumer preferences in the Philippine spirits market vary significantly by geographical region. Consumers in Northern Philippines tend to prefer gin and brandy, while consumers in Southern Philippines tend to prefer rum and Chinese wine. In recent years, brandy has gained popularity in both the Northern and Southern parts of the Philippines. The Spirits Division capitalizes on the strength of its flagship brand *Ginebra San Miguel* and its wide range of products in expanding its business, particularly in the Southern part of the Philippines.

The following table sets forth the market share of the leading brands for spirits by volume, for the periods indicated:

Brand	For the years ended December 31, 2015	2016	2017
		%	
Ginebra San Miguel	26.8	28.4	29.2
Vino Kulafu	2.9	3.2	3.3

Source: GlobalData

The following table sets forth a brief description of each of the principal products of the Spirits Division, organized by market segment which are (1) Mainstream and Economy; and (2) Value. The Mainstream and Economy segment serves the low-end liquor market and mass market with products having a suggested retail price ("**SRP**") of up to ₱119.00. The Value segment caters to the mid-market with products having SRP ranging from ₱120.00 to ₱500.00.

Market Segment	Brand / Product	Description / Target Market	Launch Date	Key Market
Mainstream and Economy		*Ginebra San Miguel* is the leading gin in the Philippine market. It is a Dutch-type gin with predominant flavor coming from juniper berries and selected essences from all over the world. Alcohol: 80-proof SRP: ₱32.00 to ₱84.00 Ranked #1 in 2017 in the gin market, according to GlobalData.	1834	Luzon
Mainstream and Economy		*GSM Blue* is a sugarcane alcohol blended with essences of juniper berries and other botanicals. Alcohol: 55-proof SRP: ₱45.00 to ₱86.00	2003	Luzon
Mainstream and Economy		*GSM Blue Flavors* is a mix of clear spirit and different flavors with a lighter alcohol content. Variants: • Mojito • Gin Pomelo • Margarita Alcohol: 35-proof SRP: ₱45.50 to ₱87.00	2012	Luzon and Visayas
Value		*Ginebra San Miguel Premium* is made from an exquisite blend of botanical extracts and juniper berries, splashed with citrus and blended with high quality alcohol. Alcohol: 70-proof SRP: ₱140.00	2005	Greater Manila
Mainstream and Economy		*Vino Kulafu* is a Chinese wine with 12 authentic Chinese botanical herbs. Alcohol: 50-proof SRP: ₱28.50 to ₱56.00 Ranked #1 in 2017 in the Chinese wine market, according to GlobalData.	1957	Visayas and Mindanao

Market Segment	Brand / Product	Description / Target Market	Launch Date	Key Market
Mainstream and Economy		*Primera Light Brandy* is made from fine imported ingredients from Spain, blended with Solera Grand Reserva Brandy concentrate, and made smoother with a premium smooth blending process. Alcohol: 55-proof SRP: ₱45.00 to ₱89.00	2015	Greater Manila
Mainstream and Economy		*Añejo Gold Medium Rum* is medium-proof rum infused with 12-years aged rum and imported alcohol. Alcohol: 67.5 proof SRP: ₱45.00	2017	Visayas and Mindanao
Value		Antonov Vodka is a made from high-grade alcohol that undergoes quadruple distillation and charcoal filtration. Alcohol: 80-proof SRP: ₱145.00	2005	Greater Manila
Value		*Don Enrique Mixkila* is made with distilled spirits and imported essences of tequila. Alcohol: 80-proof SRP: ₱193.00	2005	Greater Manila

Our spirits products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum, Tondeña Manila Rum, Gran Matador Solera, Gran Reserva Brandy, Gran Matador Gold* and *Añejo Dark Rum 5 years*. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

Over the years, the Spirits Division has received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue, Ginebra San Miguel Premium Gin* and *Ginebra San Miguel,* and silver medals for *GSM Blue Flavors Mojito, Vino Kulafu* and *Primera Light Brandy*.

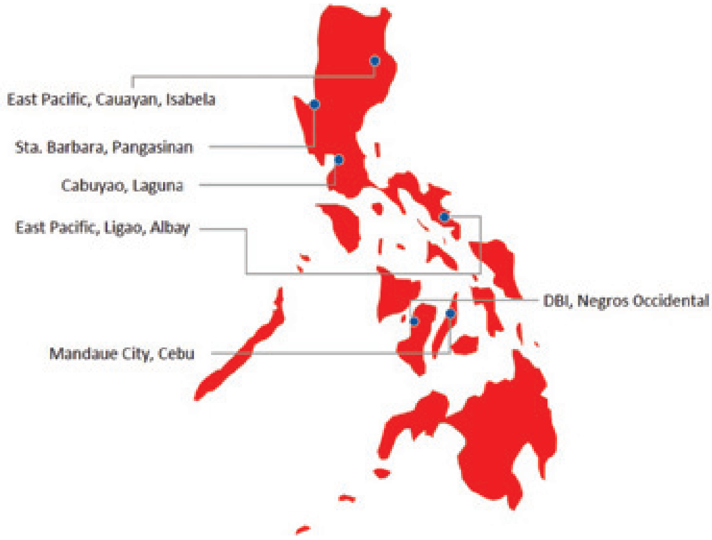
Production Facilities and Raw Materials

Production Facilities

The Spirits Division operates one distillery and five bottling plants. The distillery is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines, and has a distillation capacity of 80.0 million liters per annum while the bottling plants are located across the archipelago with a total annual bottling capacity of 63.3 million cases. The five bottling plants had an implied average utilization rate of 39%, 44%, 49% and 53% for the year ended December 31, 2015, 2016, 2017 and for the six-month period ended June 30, 2018, respectively.

The five bottling plants are located in Luzon and Visayas, namely: (1) the Cauayan plant located in Isabela Province and established in 2010; (2) the Sta. Barbara plant located in Pangasinan Province and established in 1992; (3) the Ligao plant located in Albay Province and established in 2010; (4) the Cabuyao plant located in Laguna Province and established in 1996; and (5) the Mandaue plant located in Cebu Province and established in

1964. For the year ended December 31, 2015, 2016, 2017 and for the six-month period ended June 30, 2018, the Spirits Division incurred capital expenditures for repairs and maintenance of its production facilities in the amounts of ₱233 million, ₱382 million, ₱217 million, and ₱121 million, respectively. GSMI's capital expenditure has been mostly for upgrading, repairs and replacement of machineries and equipment. We expect capital expenditure to cover the same scope until the end of 2019, which specifically will be for operations improvement and maintenance.



The production facilities located in Sta. Barbara, Pangasinan; Cabuyao, Laguna; Mandaue City, Cebu; and Bago City, Negros Occidental are compliant with the requirements of ISO 9001:2015. As of the date of this Prospectus, the facilities located in Cauayan, Isabela and Ligao City, Albay are in the process of being certified.

Thai San Miguel Liquor Co. Ltd. ("**TSML**"), a joint venture of GSMI and Thai Life Group of Companies, has a production facility located in Kanchanaburi, Thailand with a 75 KLPD distillery column and a bottling line that has an annual production capacity of 22 million liters and six million cases, respectively.

Raw Materials

Alcohol is the main raw material used for spirits, which is made by converting sugarcane molasses to alcohol at the DBI distillery. To mitigate the impact of the increasing price *vis-à-vis* the foreseen decreasing availability of sugarcane molasses for use in the production of spirits, since it is also used as the main material in the Philippine government's clean fuel program, the Spirits Division, among others, directly purchases crude and GSMI-spec alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open markets. DBI also has a separate facility which can use cassava starch milk as an alternative raw material in the production of alcohol.

Products are packaged in glass bottles, the majority of which are sourced from the Packaging Group. In addition to using new glass bottles, the Spirits Division maintains a network of washed second-hand bottle suppliers in the Philippines. The suppliers retrieve, sort and wash *Ginebra San Miguel* glass bottles, which are bought back by GSMI to be recycled and reused. For the year ended December 31, 2017 and the six-month period ended June 30, 2018, approximately 68% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers. A stringent quality control system is maintained to monitor procedures and address safety concerns in the use of recycled bottles. The Spirits Division believes that bottling costs for any particular product could be sustained over time with the continuous use of second-hand bottles. Thus, the Spirits Division has actively implemented programs to expand its network of second-hand bottle suppliers in the past three years.

Sales and Distribution

The Spirits Division primarily markets, sells and distributes its products in the Philippines to consumers through territorial distributorship made up of a network of 94 dealer sites and 15 sales offices strategically situated across the country as of June 30, 2018. The Spirits Division's sales team and key accounts group directly serves off-premise outlets such as *mom* and *pop* stores, supermarkets, grocery stores, and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels. Approximately 141,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 89% of total outlets and modern trade outlets, accounting for 11% of total outlets.

At the center of the product distribution and movement is the Spirits Division's logistics group. It spearheads the planning, coordination and delivery of finished goods from the different plants to various sales offices, warehouses, dealers, wholesalers and select retailers.

Direct shipments to dealer sites are made through third-party haulers while company-owned routing trucks deliver to directly-served outlets. To expand distribution coverage and supplement the Spirits Division's own logistical assets, it also engages third-party service providers to handle warehouse management and product delivery to various destination points. The turn-around time for the delivery of the products from the bottling plants to the dealer is four to seven days for in-land deliveries and nine to 14 days for off-shore deliveries.

While the Spirits Division has already established a good number of dealer sites throughout the country, one of its key distribution strategy is to continuously develop and acquire new dealers in areas with high volume potential, especially in the geographically segmented Southern Philippines. This strategy is anchored on the deployment of direct selling operations teams, who will focus on exploring and nurturing underserved areas until these become commercially feasible for an existing or new dealer to take-over. Initiatives have also been implemented, such as systems improvement, trainings, incentive programs, merchandising, postering and multiple localized below-the-line activities to sustain and ensure continuous growth in volume.

Research and Development

The Spirits Division continuously develops new products as it seeks to expand its existing product lines and maintains a well-equipped laboratory that provides capabilities to develop innovative product formulations as well as a dedicated technical group focused on NPD. In addition to the popular Mojito that is a variant of GSM Blue Flavors, which was launched in 2012, new variants Margarita and Gin Pomelo as well as new product *Añejo Gold Medium Rum* were developed and launched in 2017.

The *Añejo Gold Medium Rum* was introduced to address the market gap between strong and light spirits products and is geared towards the young adult market. This was specifically formulated to be 67.5% proof for moderate strength and is made from alcohol that has been aged in oak barrels for 12 years blended with high quality ingredients.

The R&D team also develops product formulations for certain toll manufacturing customers, such as the Don Papa Rum and all of its limited-edition variants. These are sold predominantly in Europe, North America, Australia, New Zealand and select Asian countries.

For the years ended December 31, 2015, 2016 and 2017, the Spirits Division spent ₱33 million, ₱31 million and ₱37 million (US$0.7 million) on R&D activities, representing 0.2%, 0.2% and 0.2% of sales for the same periods, respectively. For the six-month period ended June 30, 2017 and 2018, the Spirits Division spent ₱17 million and ₱27 million (US$0.5 million) on R&D activities, representing 0.2% of sales for both periods.

Marketing

The Spirits Division is focused on growing its core gin products. Recent thematic campaigns such as the slogan "*Ginebra Ako*" aid in reinforcing the flagship brand *Ginebra San Miguel* as a leading gin brand in the market. Targeted product launches allow GSMI to capture new drinkers and markets. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the launch of several *GSM Blue Flavor* variants.

As the leading gin player, the *Ginebra San Miguel* brand spearheads the annual commemoration of World Gin Day, which is held in June. The local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide. There is also the widely anticipated GSMI calendar featuring a popular celebrity and "*Ginumanfest*", a concert series, that is hosted by GSMI to coincide with major provincial *fiestas* and in select barangays across the country.

The Spirits Division has a very popular professional basketball team, the *Barangay Ginebra San Miguel*, whose players are regularly used in its advertising campaigns. This nurtures a preference for the GSMI brands and products because of a strong affinity to the *Barangay Ginebra San Miguel* basketball team as basketball continues to be a well-loved and one of the most watched sport in the Philippines. Product advertisements are commonly streamed through television, radio, print and billboards. The Spirits Division has also explored new marketing channels, utilizing digital advertising, and sponsoring special events and consumer and trade promotions, to create a new generation of gin consumers.

Competition

In the Philippine spirits market, competition among the major players revolves around brand equity through above and below the line advertising activities, price leadership, NPD, raw material security, production efficiency and distribution. GSMI's major competitor for spirits products are Emperador Distillers, Inc. and Tanduay Distillers Inc. The former is largely known for its Emperador Light Brandy which is popular among the young working class in Greater Manila and most urban cities. Tanduay Distillers, Inc.'s Tanduay Rhum Dark Five Years is a staple hard liquor drink in the Visayas and Mindanao region. Our *Ginebra San Miguel* is the preferred brand in northern and southern Luzon. As the Chinese wine segment has also seen an increase in consumption in recent years, the Spirits Division's *Vino Kulafu* has emerged as the top choice in this category according to GlobalData. Patronage mostly comes from various islands in the Visayas and parts of Mindanao.

Intellectual Property

The Spirits Division registers its trademarks, industrial design and copyright used or intended to be used in its products and business with, among others, the Intellectual Property Office of the Philippines and equivalent authorities outside the Philippines. The Spirits Division also ensures that such registrations are maintained and promptly renewed, subject to relevant laws, rules and regulations.

All of Spirits Division's trademarks for its products sold in the Philippines and in the relevant foreign markets are either registered or have pending registration applications in its name or in the name of SMC. The Spirits Division's use of the SMC trademarks are duly authorized by SMC. The Spirits Division has also applied for registration or registered in its name, among others, the trademarks *Vino Kulafu* and *Primera Light* and label designs and bottles for *Ginebra San Miguel*, while the trademarks *GSM Blue, GSM Blue Flavors, Antonov Vodka* and *Don Enrique Mixkila* are registered in the name of SMC. The Spirits Division also has an industrial design registration for its bottle *Ginebra San Miguel* (round/bilog) and has existing copyright certificates of registration over certain pictorial illustrations and radio materials which were used for advertising *Vino Kulafu*.

Trademarks used by the Spirits Division are likewise registered in various countries including Thailand, the U.S., China, Canada, Hong Kong, India, Italy, Kuwait, New Zealand and Taiwan.

Quality Control, Health, Safety and Environmental Matters

The Spirits Division is compliant with applicable statutes and regulations on health, safety and environment and possesses the required permit and licenses to operate its production facilities.

Health and safety programs of the Spirits Division focus on creating a suitable working environment to ensure that its processes result in quality products and services. This suitable working environment is a combination of favorable human and physical factors such as social (e.g., calm, non-discriminatory and non-confrontational), psychological (e.g., stress-reducing, burn-out protection, emotionally protective), and physical (safe, ergonomic, temperature, heat, humidity, light, hygiene, noise and space) factors.

The Spirits Division, in compliance with the DOLE requirement, has established a safety committee headed by a safety officer for each of the Spirits Division production facilities, which is tasked to conduct job hazard analyses and near miss/incident/accident investigation, and regular site inspections. For each of the Spirits Division production facilities, there is also a crisis committee tasked to immediately attend to civil disturbances and natural calamities and fire brigades for fire safety concerns.

All employees undergo annual physical and medical examinations. There are assigned nurses in every production shift, as well as medical doctors where needed. The Spirits Division production facilities also have their pool of first aid providers.

The Spirits Division's manufacturing group also conducts safety audits of the Spirits Division production facilities and recognition and awards are given to outstanding safe plants during the Spirits Division's annual Supply Chain Conference.

As for environmental management, the Spirits Division production facilities have waste water treatment facilities, air pollution abatement devices with CCTV monitors on smoke stacks, material recovery facilities for recycling packaging materials, and control system for hazardous wastes. The Spirits Division has commenced efforts to implement Environmental Management System based on ISO 14001:2015 standard and its production facilities also have self-monitoring activities for their respective environmental programs, which are reported to the DENR on a quarterly basis.

FOOD DIVISION

The Food Division holds market-leading positions in many key food product categories in the Philippines and offers a broad range of high-quality food products and services to household, institutional and food service customers. The Food Division has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods and Purefoods Tender Juicy* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *La Pacita* for biscuits, and *B-Meg* for animal feeds.

The breadth of our Food Division ranges from branded value-added refrigerated meats and canned meats, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes and coffee and coffee-related products ("**Prepared and Packaged Food**") to integrated feeds **("Animal Nutrition and Health")** to poultry and fresh meats **("Protein")** as well as flour milling, grain terminal handling, foodservice, franchising and international operations ("**Others**").

The table below sets forth the market share of the leading brands of the Food Division for the periods indicated:

	For the years ended December 31,		
Category	**2015**	**2016**	**2017**
		%	
Branded Processed Meats	31.2	32.9	35.0
Protein	24.3	23.8	23.5
Dairy	12.3	12.3	12.5
Ice cream	11.5	11.5	11.4
Animal Nutrition and Health	25.3	25.3	25.0

Source: GlobalData

The table below sets forth the sales volume for each segment of the Food Division for the periods indicated:

	For the years ended December 31,		
Segment[(1)]	**2015**	**2016**	**2017**
	in thousand metric tons		
Prepared and Packaged Food[(2)]	172	182	195
Animal Nutrition and Health	1,132	1,171	1,205
Protein	416	443	457

Notes:

[(1)] *Includes inter-segment and inter-division sales volume.*

[(2)] *Excludes intra-segment sales volume.*

The table below sets forth the sales per segment for the periods indicated:

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		**2016**		**2017**			**2017**		**2018**		
Sales[(1)]	**₱**	**%**	**₱**	**%**	**₱**	**US$[(5)]**	**%**	**₱**	**%**	**₱**	**US$[(5)]**	**%**
	(in millions, except percentages)											
Prepared and Packaged Food[(2)]	₱25,505	23.9	₱27,368	24.5	₱29,095	US$ 544	24.8	₱12,536	22.4	₱14,345	US$ 268	22.8
Animal Nutrition and Health[(3)]	26,245	24.6	26,903	24.1	27,560	515	23.5	13,524	24.2	15,674	293	24.9
Protein[(3)]	46,314	43.3	49,591	44.5	53,243	995	45.3	25,952	46.4	28,791	538	45.8
Others[(4)]	8,791	8.2	7,701	6.9	7,550	141	6.4	3,935	7.0	4,076	76	6.5
Total	**₱106,855**	**100.0**	**₱111,563**	**100.0**	**₱117,448**	**US$2,195**	**100.0**	**₱55,947**	**100.0**	**₱62,886**	**US$1,175**	**100.0**

Notes:

(1) Includes inter-segment sales and excludes inter-division sales.

(2) Presented as the "Branded Value-Added" segment in SMPFC's historical financial statements.

(3) Presented as part of the "Agro-Industrial" segment in SMPFC's historical financial statements.

(4) Includes the "Milling" segment in SMPFC's historical financial statements and eliminations of inter-segment sales.

(5) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

The following table sets forth our income from operations by segment for the periods indicated:

	For the years ended December 31,							For the six-month period ended June 30,				
	2015		2016		2017			2017		2018		
Operating Results[1][2]	₱	%	₱	%	₱	US$[6]	%	₱	%	₱	US$[6]	%
	(in millions, except percentages)											
Prepared and Packaged Food[3]	₱2,305	30.2	₱2,589	29.0	₱2,652	US$ 50	26.7	₱837	18.7	₱864	US$16	18.3
Animal Nutrition and Health[4]	1,640	21.4	1,948	21.8	1,783	33	18.0	1,016	22.8	680	13	14.4
Protein[4]	1,151	15.1	2,044	22.9	3,853	72	38.8	2,273	51.0	2,378	44	50.5
Others[5]	2,548	33.3	2,350	26.3	1,638	31	16.5	334	7.5	790	15	16.8
Total	**₱7,644**	**100.0**	**₱8,931**	**100.0**	**₱9,926**	**US$186**	**100.0**	**₱4,460**	**100.0**	**₱4,712**	**US$88**	**100.0**

Notes:

(1) Includes operating results from inter-segment sales and excludes operating results from inter-division sales. Inter-segment sales represent primarily (i) sales of pollard from the flour milling business under the Others segment to the Animal Nutrition and Health segment, (ii) sales of poultry and fresh meats from the Protein segment to the Prepared and Packaged Food segment, (iii) service revenue of the grain terminal operations under the Others segment from the Animal Nutrition and Health segment and (iv) sales of premixes from the Flour Milling business under the Others segment to the Prepared and Packaged Food segment.

(2) Operating results is determined by deducting selling and administrative expenses from gross profit.

(3) Presented as the "Branded Value-Added" segment in SMPFC's historical financial statements.

(4) Presented as part of the "Agro-Industrial" segment in SMPFC's historical financial statements.

(5) Includes the "Milling" segment in SMPFC's historical financial statements and eliminations of inter-segment operating results

(6) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US\$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).

Products and Brands

The Food Division produces a wide range of food products. Its brand portfolio includes some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia, Monterey, Purefoods, Purefoods Tender Juicy, Star, Dari Crème, La Pacita, San Mig Super Coffee* and *B-Meg*.

The discussion below presents the key operating subsidiaries, products, brands and services for each of the primary segments of the Food Division: Prepared and Packaged Food, Animal Nutrition and Health, Protein and Others.

Prepared and Packaged Food

The Prepared and Packaged Food segment includes refrigerated meats, canned meats, dairy, ice cream, spreads and oils, biscuits and coffee.

Key Brands

Canned Meats

Refrigerated Meats

Dairy, Spreads, Biscuits and Coffee

The major operating subsidiaries for the Prepared and Packaged Food segment are Purefoods-Hormel Company Inc. ("**Purefoods-Hormel**"), Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc. ("**SMSCCI**").

Purefoods-Hormel produces and markets value-added refrigerated processed meats and canned meat products and is a 60:40 joint venture with Hormel Netherlands, B.V. which we entered into in 1998. The joint venture agreement sets out the parties' agreement as shareholders of Purefoods-Hormel, including, among others, provisions on technical assistance and sharing of know-how, the use of trademarks, corporate governance and approvals, exclusivity with respect to the manufacture, sale, importation and distribution of Hormel products in the Philippines and restrictions on the transfer of Purefoods-Hormel shares.

Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods, Purefoods Tender Juicy, Star, Higante, Purefoods Beefies, Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods, Star* and *Ulam King* brands.

The dairy, spreads and biscuits business, primarily operated through Magnolia, Inc., manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids, biscuits, flour mixes and cooking oils. Bread spreads include butter, refrigerated and non-refrigerated margarine and cheese sold primarily under the *Magnolia, Dari Crème, Star* and *Cheezee* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream under the *Magnolia* brand; jelly-based snacks are under the *JellYace* brand, biscuits under the *La Pacita* brand, while flour mixes, salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand. Our margarine brands, *Star* and *Dari Crème*, established in 1931 and 1959 respectively, were acquired in the 1990s.

The coffee business under SMSCCI is a 70:30 joint venture between SMFB and a Singaporean partner, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte. Ltd. ("**SCCPL**"). In June 2017, Jacobs Douwe Egberts Holdings Asia NL B.V. ("**JDE**") acquired Jacobs Douwe Egberts HLD SGP Pte. Ltd., formerly Super Group Pte. Ltd., which, in turn, owns 100% of Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly SCCPL. JDE is a global coffee and tea company with presence in more than 120 countries and a key player in 28 countries across Europe, Latin America and Asia-Pacific. SMSCCI imports, packages, markets and distributes coffee mixes and coffee-related products in the Philippines.

In February 2015, the Food Division entered the biscuits category through the acquisition of the *La Pacita* brand from Felicisimo Martinez & Co., Inc. *La Pacita* products include crackers and cookies in various formats, which are distributed in the Philippines and exported to other countries.

Animal Nutrition and Health

The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines.

Key Brands

Integrated Feeds *Veterinary Medicines*

The operating subsidiary for the Animal Nutrition and Health segment is San Miguel Foods.

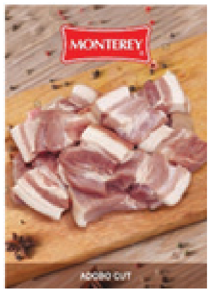
Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands such as *B-Meg*, *B-Meg Premium, Integra, Expert, Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry is comprised of three segments of feed users: (i) the commercial segment, which comprises small farms that purchase feeds from retail outlets supplied by commercial feed manufacturers, as well as medium-to-large farms that purchase directly from these manufacturers, (ii) the intra-segment, which comprises large, integrated livestock and poultry farms that operate their own feedmills, and (iii) the home-mix segment, which comprises small-to-medium farms producing their own feeds for self-use.

Protein

The Protein segment is in the business of poultry and fresh meats.

Key Brands



Poultry *Fresh Meats*

San Miguel Foods is also the operating subsidiary for the Protein segment.

The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. As of June 30, 2018, there were approximately 1,200 *Magnolia Chicken Stations* across the Philippines. The poultry business also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors and sells live chickens to dealers.

The fresh meats business breeds, grows and processes hogs and trades beef and pork products. Its operations include slaughtering live hogs and processing beef and pork carcasses into primal and sub-primal meat cuts. These specialty cuts and marinated products are sold in neighborhood meat shops under the well-recognized *Monterey* brand name. There were over 650 *Monterey Meatshops* across the Philippines as of the June 30, 2018.

Others

Flour milling, premixes and baking ingredients, foodservice and franchising together with international operations, are categorized under Others. The bulk of this segment is accounted for by our flour milling business and grain terminal operation.

Key Brands

Flour Milling *Premixes and Baking Ingredients* *Franchising* *International Operations*

The flour milling business operates under San Miguel Mills, Inc. ("**San Miguel Mills**"). San Miguel Mills owns Golden Bay Grain Terminal Corporation, which provides grain terminal, warehousing services and grain handling (e.g. unloading, storage, bagging, and outloading) services to clients, and Golden Avenue Corp., which holds investment in real property.

The flour milling business offers a variety of flour products that includes bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, *pan de sal* mix, and *puto* (or rice cake) mix. The business pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten in the Philippines for breakfast. Flour products are sold under 19 brand names which enjoy strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

In 2012, *Kambal Pandesal* bakery outlets were launched, an innovative concept that has simplified bakery operations for entrepreneurs by providing proprietary bread premixes that are easy to bake. The business likewise provides technical assistance such as site search and training on bakery operations and management, as well as continuous product development and marketing support. As of June 30, 2018, there were over 530 *Kambal Pandesal* bakery outlets which are third party-owned and operated.

The international operations of the Food Division are located in Indonesia and Vietnam. PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah) ("**PTSMPFI**") is a 75:25 joint venture with PT Hero Intiputra of Indonesia. San Miguel Pure Foods Investment (BVI) Limited, which operates San Miguel Pure Foods (Vn) Co., Ltd. ("**SMPFVN**") in Vietnam, is a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPFI and SMPFVN are in the business of production and marketing of processed meats which are sold under the *Farmhouse* and *Vida* brands in Indonesia and under the *Le Gourmet* brand in Vietnam.

The foodservice business of the Food Division is handled by Great Food Solutions, a group under San Miguel Foods. Great Food Solutions, which services institutional accounts such as hotels, restaurants, bakeshops, fast food and pizza chains, was established in 2002 and is one of the largest foodservice providers in the Philippines. It markets and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour and coffee businesses. In turn, Great Food Solutions receives a development fee from these businesses for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

The Food Division ventured into the franchising business to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. The franchise business, also a group under San Miguel Foods, follows a convenience store model under the *San Mig Food Ave* brand, most of which are located in Petron gasoline stations. *Roasters and Fryers* is the newest addition to the Food Division's franchising roster. Launched in October 2017, *Roaster and Fryers* gives its own take on the popular roast chicken, fried chicken, *crispy pata* and *lechon kawali* with top quality meats using *Monterey* and *Magnolia* brands.

Production Facilities and Raw Materials

The Food Division uses both company-owned and third-party owned facilities for production operations. As of June 30, 2018, the Food Division owns over 20 manufacturing facilities and has contracts with close to 1,500 tolled manufacturing facilities and contract farms. The Food Division's production facilities are located throughout the Philippines, as discussed further below.

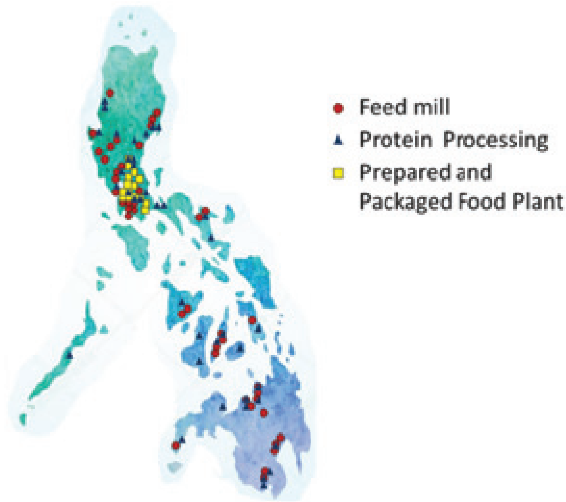
The table below sets forth the proportion of company-owned and tolled manufacturing facilities of the Food Division per segment for the year ended December 31, 2017:

	Percentage Mix of Manufacturing Facilities	
Segment	**Company-owned**	**Tolled**
Prepared and Packaged Food	68%	32%
Animal Nutrition and Health	29%	71%
Protein	3%	97%
Flour Milling under Others	100%	0%

The Food Division is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, except in respect of the coffee business as coffee mixes are provided solely by Super Coffeemix Manufacturing Ltd. (Thailand) Company **("SCML Thailand")**. The division believes that its operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

For the year ended December 31, 2015, 2016, 2017 and for the six-month period ended June 30, 2018, the Food Division incurred capital expenditures for expansion, repairs and maintenance of its production facilities in the amounts of ₱3,128 million, ₱6,467 million, ₱10,890 million, and ₱3,888 million, respectively. Of the total capital expenditures, for the years ended December 31, 2015, 2016 and 2017, 74%, 85%, and 88%, respectively, comprised capital expenditures for expansion projects, while the rest include repairs and maintenance, and purchase of administrative and Information Technology assets such as software, among others. The Food Division expects to incur capital expenditures of up to approximately ₱39 billion until the end of 2019, for the construction of new production facilities to increase capacity and expand facilities as described below, including repairs and maintenance for existing assets. This expected amount reflects the Food Division's estimates and strategy as of the date of this Prospectus. The capital expenditures may change as projects are reviewed, or contracts are entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the operating performance and cash flow of the Food Division and its ability to obtain financing on terms satisfactory to management.

Food Division Manufacturing Facility



Prepared and Packaged Food

Production Facilities

For our Prepared and Packaged Food segment, our production facilities are located in Luzon. Three production facilities are located in Cavite, two of which are for meat processing operations for the manufacture of hotdogs, nuggets, hams, bacon, sausages, meat toppings, and sauces. The third facility manufactures bread spread products through a process that includes pasteurization, blending, chilling and packing for bread spreads, and cooking, filling, pre-packing and end-packing for cheeses. Ice cream and biscuits are manufactured at company-owned facilities located in Sta. Rosa, Laguna and Antipolo City, respectively. Flour mixes under the *Magnolia* brand, on the other hand, are manufactured at company-owned facilities in Mabini, Batangas.

Milk, all-purpose cream, jelly-based snacks and cooking oil products are manufactured in third party-owned plants under tolling arrangements, all of which meet quality standards. Other toll-manufacturing agreements with *Halal*-accredited facilities are also maintained to augment its production capacity, meet periodic volume increases and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

As of December 31, 2017 and June 30, 2018, the capacity of the Prepared and Packaged Food segment was at 192,000 metric tons and 230,000 metric tons, respectively. For the year ended December 31, 2017 and for the six-month period ended June 30, 2018, the overall utilization rate of our production facilities for the Prepared and Packaged Food segment was at 80% and 67%, respectively.

The Prepared and Packaged Food segment is increasing its capacity by 134,000 metric tons over the period 2018 to 2020 for the value-added meats, dairy, spreads and biscuits. The Food Division intends to build four facilities for its hotdogs; Breaded, Battered, and Fried products; butter, margarine, and cheese; and cannery activities across Luzon and Visayas-Mindanao.

Raw Materials

The primary raw materials used for refrigerated and canned meats are chicken, beef and pork primal cuts, most of which are sourced through the Business Procurement Group (the "**BPG**") of the Food Division, which strives to secure prices lower than prevailing market or published rates. The BPG maintains a pool of accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team. For the six-month period ended June 30, 2018, approximately 19% of raw materials in refrigerated and canned meats were sourced from the other food businesses of SMFB, 19% from domestic suppliers and 62% were imported from the U.S., Denmark, India, Argentina and Brazil, among others. The major supplier for imported meat requirements for the six-month period ended June 30, 2018 is Alternative Food Corp.

Raw materials required by the dairy, spreads and biscuits business are also sourced through the BPG. For the six-month period ended June 30, 2018, approximately 7% of raw materials in dairy, spreads and biscuits categories were sourced from the other food businesses of SMFB, 52% from domestic suppliers and 41% were imported from New Zealand, Germany, Australia, U.S. and Vietnam, among others. Approximately 66% of dairy materials, such as cheese curd, rennet-casein and milk powders, were imported from various suppliers in Australia, India and New Zealand. Vegetable oils are sourced from various oil manufacturers and traders in the Philippines. For the six-month period ended June 30, 2018, more than 61% of major raw materials in the production of dairy, spreads and biscuits, such as cheese curd and anhydrous milk fat, were imported primarily from Fonterra Ingredients Limited based in New Zealand. Vegetable oils were sourced from various oil manufacturers and traders in the Philippines primarily from Tap Oil Manufacturing Corporation.

All of the procurement, manufacturing and pre-packing of raw materials for coffee products are handled by SMSCCI's partner in Singapore and Thailand. Coffee mixes are imported through SCML Thailand while re-packing, marketing, selling and distribution are done in the Philippines.

Animal Nutrition and Health

Production Facilities

For the Animal Nutrition and Health segment, compound feeds are manufactured at nine company-owned feedmills, six of which are located in Luzon, one in Visayas and two in Mindanao which are managed, operated, and maintained by independent qualified tollers, and 31 third party-owned and operated feed plants located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds and four plants have extrusion capabilities to produce aquatic floating feeds. The feeds business also maintains tolling arrangements for six rendering facilities that convert animal by-products used as raw materials into some feed types.

As of December 31, 2017, the Animal Nutrition and Health segment capacity was at 2,612 thousand metric tons. For the year ended December 31, 2017 and for the six-month period ended June 30, 2018, the overall production utilization rate of our production facilities for the Animal Nutrition and Health segment was consistently at 99%.

The Animal Health and Nutrition segment is building five new feedmills with an estimated capacity of approximately 1,500 thousand metric tons for the period 2018 to 2020, one of which will be equipped with capability to produce aquatic floating feeds. These will increase the Food Division's capacity for higher margin products and will help supply the Visayas-Mindanao region.

Raw Materials

The largest single cost component for feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. Corn is purchased locally from corn traders and occasionally from suppliers in the U.S., South America and Southeast Asia. Soybean meal requirements are sourced mainly from Singapore-based Louis Dreyfus Commodities Asia Pte. Ltd., Toyota Tsusho Asia Pacific Pte. Ltd. and Bunge Agribusiness Singapore Pte. Ltd. and are also imported from Argentina, U.S. and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. For the six-month period ended June 30, 2018, 38% of the total grain requirements were locally sourced while the remainder was purchased from the U.S., Southeast Asia, South America and Black Sea. The Animal Nutrition and Health segment also uses the by-products of other SMFB subsidiaries as raw materials such as spent grain and yeast from SMB, pollard from San Miguel Mills and offal and feathers from the poultry dressing plants of the poultry business. The BPG is responsible for sourcing raw materials.

Prices of raw materials are subject to significant volatility due to extreme weather conditions, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rate fluctuations and other factors. See "*Risk Factors—Our financial performance may be materially and adversely affected by disruptions in the supply of, or price fluctuations in, major raw materials*." To minimize the adverse effects of unexpected price increases, the Food Division enters into hedging transactions and maintains strategic buying programs. We endeavor to generally hedge up to 20% of our wheat and soybean meal requirements, and do forward buying of U.S. dollars, if needed. Further to this, the Food Division has developed alternative sources of raw materials such as cassava, which is used as a substitute ingredient for corn. The Animal Nutrition and Health segment initiated a cassava assembler's program which encourages farmers to organize into a business unit and assemble a minimum of 20 hectares of land for cassava production. The Animal Nutrition and Health segment provides them with an assured market, a guaranteed floor price, technical assistance, access to financing and planting material advances. For the year ended December 31, 2017 and the six-month period ended June 30, 2018, the business consolidated more than 300,000 and 110,000 metric tons, respectively, of local cassava from assemblers to support the requirements of internal and external markets.

Protein

Production Facilities

For the Protein segment's poultry business, company-owned facilities include two poultry processing plants located in Cebu and Davao, two poultry hatcheries located in Laguna and Bukidnon, and one poultry breeder farm located in Bataan. All of these company-owned facilities are operated by third parties.

The poultry business primarily utilizes third party-owned facilities operated under tolling arrangements. As of June 30, 2018, all of the poultry growing output and 97% of processing output were from tolled facilities. Approximately 93% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. Supporting its vertically controlled poultry operations are two company-owned processing plants, 31 processing plants operated under tolling arrangements and an extensive network of third-party cold storage warehouses and distribution facilities throughout the Philippines.

For the Protein segment's fresh meats business, company-owned facilities include two hog farms located in Bulacan and Bukidnon, two cattle farms located in Isabela and Laguna and one hog/cattle slaughterhouse located in Cavite, which are all operated by third parties. The Protein segment maintains a vertically integrated operations, allowing the business to have control and oversight of the entire value chain from the selection of genetic stocks to growing and processing of hogs, to selling, mainly through the *Monterey Meatshop* network.

Hog raising operations use a two-site system which separates breeding from nursery and growing into isolated facilities to minimize the risk and spread of disease. As of June 30, 2018, more than 90% of the business hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 60% of these employ climate-controlled as well as elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

As of December 31, 2017, the capacity of the Protein segment was at 361 million heads. For the year ended December 31, 2017 and for the six-month period ended June 30, 2018, overall utilization rate of our protein plants was at 85% and 87%, respectively.

The Protein segment is building three poultry facilities capable of processing approximately 74 million heads for the period 2018 to 2020. Two new fresh meat processing plants are planned with one to be located in Luzon and the other in the Visayas-Mindanao region.

Raw Materials

Breeder flocks (grandparents of birds) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The poultry business imports its breeder stocks primarily from Aviagen and Cobb Vantress Inc., both of which are agri-business firms based in the U.S. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the day-old chicks are sent to the broiler farms where they are cared for and raised by contract growers according to the Food Division's standards until the chicks reach marketable weight. Fully-grown chickens are transported to processing plants, where they are processed into finished products, which are then sent to distribution centers and sold to customers.

For the year ended December 31, 2017 and the six-month period June 30, 2018, the fresh meats business sourced more than 90% of its live hogs from contract growing farms. See "*Risk Factors—Risks Relating to Outsourcing to Our Businesses and Operations—Our third party contractors may fail to perform their obligations, or if we are unable to find new contractors to meet increased demand, our businesses and results of operations could be materially and adversely affected*." The fresh meats business sources majority of its breeding hogs from TOPIGS Philippines, Inc. and PIC Philippines, Inc. Boxed beef were imported from Australia, New Zealand, Canada, Netherlands, Ireland, the U.S., and Brazil and beef carcass sourced mainly from D'Meter Fields Corporation, a domestic company.

For the year ended December 31, 2017 and six-month period ended June 30, 2018, feeds accounted for the majority of production costs for the Protein segment, representing approximately 66% of costs for poultry, and approximately 64% of costs for fresh meats, respectively. All feeds requirements and more than 20% of veterinary medicine requirements of the Protein segment are supplied by the Animal Nutrition and Health segment.

Others

Production Facilities

The flour milling business owns two flour mills, located in Mabini and Tabangao in Batangas, and two flour blending facilities in Mabini, Batangas which produces customized flour products. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets.

Production capabilities are supported by its Flour Technology Center located in Pasig City, Metro Manila, which develops customized flour blends and new flour-based products.

San Miguel Mills owns the Golden Bay Grain Terminal located in Batangas Province, which can accommodate panamax-sized vessels and has an estimated discharge rate of at least 10,000 metric tons per day. The terminal has provided the flour milling business an advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs as well as generate savings in freight costs from the use of bigger vessels. The terminal is adjacent to the flour mill located in Mabini, Batangas and also services the grain handling requirements of the Animal Nutrition and Health segment. The Golden Bay Grain Terminal also services external customers such as commercial grains traders.

For the year ended December 31, 2017, the flour milling business capacity was at 14 million 25 kg bags. Over the same period, the overall utilization rate of our production facilities for flour was at 96%. For the six-month period ended June 30, 2018, overall utilization rate was at 95%.

An additional flour milling facility is being constructed in Mabini, Batangas which will have an estimated capacity of 11 million 25 kg bags and is expected to be operational by the first half of 2019. The Food Division is also constructing a new ready-to-eat production facility with an estimated capacity of 27,000 metric tons per annum.

Raw Materials

Historically, approximately 70% of the wheat requirements of the flour milling business are sourced from the U.S. with the remainder sourced from various countries. World wheat prices are monitored daily by BPG to determine long-term and short-term buying strategies to control costs. For the six-month period ended June 30, 2018, 97% of raw materials were imported from the U.S., Canada, Singapore and India, and more than 70% of our wheat requirements were supplied by Bunge Agribusiness, CHS and Glencore.

Sales and Distribution

The Food Division sells its products through three channels, namely, general trade, modern trade and institutional accounts. General trade channels include traditional trade markets in the Philippines, such as small grocery stores, wholesalers and dealers and bakeries, wet markets and *mom* and *pop* stores. Modern trade channels include hypermarkets, supermarkets and convenience stores. Institutional accounts include quick service restaurants and hotels, bakeshop chains, food manufacturers, large commercial farms, and exports. Products are exported to Asia, North America and Europe mainly to supply Filipino communities abroad.

For the years ended December 31, 2017, the Food Division estimates that it covers approximately 130,000 points of sale of which 89.7%, 5.6% and 4.7% comprise general trade, modern trade and institutional accounts, respectively. General trade, modern trade and institutional accounts contributed 46%, 26% and 28%, respectively, to revenues for the year ended December 31, 2017.

Prepared and Packaged Food

San Miguel Integrated Sales handles the sale and distribution of products under the Prepared and Packaged Food segment through modern trade channels (e.g., major supermarket chains, hypermarkets, groceries, convenience stores), general trade channels (e.g., market traders and *mom* and *pop* stores), wet market traders and retail outlets. Prepared and Packaged Food segment's products are distributed by Great Food Solutions to institutional and foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts.

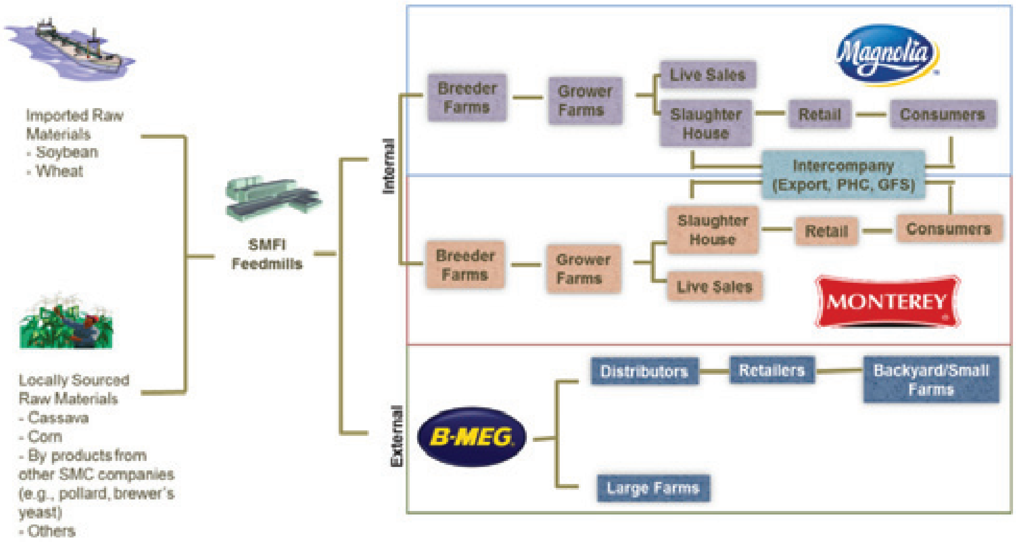
Domestic distribution is handled by the outbound logistics group, which manages planning, technical logistics services, warehousing and transportation while the international business handles exports to serve Filipino communities in Asia, North America, the Middle East, and Europe.

Animal Nutrition and Health

As of the period ended December 31, 2017, the Animal Nutrition and Health segment produces for both the Food Division's internal requirements and for the commercial feeds market. As of December 31, 2017, 51% of the production volume was used for the Food Division's internal requirements, while the remaining 49% was sold to the commercial feeds market. As of six-month period ended June 30, 2018, volumes accounted for 49% and 51%, respectively, of the feeds production volumes. Feeds supplied to the Protein segment are not included in the revenue or volume sold of the Animal Nutrition and Health segment.

Approximately 80% of products are sold through authorized distributors within a defined territory, while 20% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 24 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

The feeds production and distribution process is illustrated below:



Protein

The Food Division sells its Protein segment products through a variety of channels. Modern trade channels, which includes *Magnolia Chicken Stations* for poultry, *Monterey Meatshops* for fresh meats, supermarkets, convenience stores and membership shopping club outlets. General trade channels include wet markets, commissaries, wholesalers, distributors, and buyers of live birds and hogs. Institutional accounts include exports, quick-service restaurants and hotels. In addition, the Protein segment supplies a portion of the requirements of the Prepared and Packaged Food segment.

Protein products are distributed to two market segments through the above-mentioned channels in order to maximize market penetration throughout the Philippines:

- commodity segment (such as wet markets and live chicken and hog buyers); and
- stable-priced segment (such as *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients).

For the year ended December 31, 2017, 43% and 57% of sales under the Protein segment were to the commodity segment and to the stable-priced segment, respectively.

The *Magnolia Chicken Station* was a concept developed by the poultry business to bring the wet market to the supermarket. These stations offer more choices of cuts and better customer service in a clean and hygienic environment. As of June 30, 2018, there are approximately 1,200 *Magnolia Chicken Stations* nationwide, 28% of which are franchisee-owned. The remainder of these outlets are located in supermarkets and are handled by third party operators through a modified consignment arrangement.

The Food Division pioneered in the branding of fresh meats by launching the *Monty's* supermarket meat shop in 1990, which eventually became a network of neighborhood meat shops under the *Monterey* brand. This strategy was successful in differentiating its high-quality meat products from those of competitors. Pork, beef and marinated meats products are sold in hygienic and air-conditioned *Monterey Meatshops* which are manned by well-trained staff.

As of June 30, 2018, there were more than 650 *Monterey Meatshops* throughout the Philippines, 67% of which were franchised, with the remainder being third party-operated.

To increase sales volumes and improve profitability, the Protein segment provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Majority of the Protein segment's products are distributed directly from productions facilities to supermarkets and foodservice operators. The distribution infrastructure includes a network of cold storage facilities located throughout the Philippines and a large fleet of third-party contracted vehicles.

Others

The flour milling business of the Food Division focuses on offering the widest array of differentiated flour products in the Philippine market. The flour application specialists, in support of the sales team, determine the specific flour product requirements of its customers as well as conduct field baking tests of the products to demonstrate their application. For customized products, the R&D team and the sales team work side by side with the customers to develop formulations specific to their requirements. The Food Division manages a nationwide distribution network that distributes flour and other bakery ingredients to major bakeries and other flour users.

Great Food Solutions, our foodservice business, distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Food Solutions receives a development fee from other Food Division subsidiaries for selling their products to foodservice institutional clients. The key strategies of the food service business include selling customized solutions, direct marketing to customers and focused relationship management.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Food Division's R&D teams engage in continuous activities to identify cost and production process improvements. Among others, cost reductions have been achieved using alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

The Food Division has developed a systematic approach to NPD referred to as the stage-gate process, which is a five-step process comprising idea generation, feasibility testing, commercialization, launch and post-launch evaluations. The process optimizes returns on NPD by prioritizing innovations in the pipeline in a disciplined approach. New products that excite the more sophisticated palates of consumers as well as address the health awareness and convenience food trends are continuously introduced. For example, we recently rolled out the *Heat and Eat* line consisting of *Purefoods Crispy Pata* and *Purefoods Lechon Kawali* to add to our product portfolio alongside *Purefoods Crispy Fried Chicken*, *Purefoods Chicken Nuggets*, *Purefoods* native line (e.g., *tocino*, *longganisa*), *Magnolia Free Range Chicken* and *Magnolia Brown Eggs*. We are building our manufacturing plant for ready-to-eat products at Sta. Rosa, Laguna designed to produce fully cooked viands and heat-and-serve meals that can address the growing need for convenient, delicious and nutritious meals.

The Food Division owns several R&D facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial feed formulations to minimize costs and maximize animal growth. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, two research facilities for tilapia, four hog research farms, four broiler research farms, two-layer research farms, a fry production facility and various hatching facilities for tilapia breeding.

The R&D team also engages in the development, reformulation and testing of new products and believes that the team's continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, the team regularly conducts consumer surveys and works closely with the Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Aside from product innovations, the R&D teams of the Food Division also look into efficiency improvement for operations through the use of new technology such as climate-controlled housing system for hogs and broilers as a measure of increasing production cycles per farm per year, improving feed consumed to weight ratio and getting better harvest recovery. The "Big Bird" initiative is the selective breeding innovation that optimizes the growth potential of the breed, resulting in lower cost to produce.

For the years ended December 31, 2015, 2016 and 2017, the Food Division spent ₱419 million, ₱303 million and ₱356 million (US$6.7 million) on R&D activities, representing 0.4%, 0.3% and 0.3% of sales for the same periods, respectively. For the six-month period ended June 30, 2017 and 2018, the Food Division spent ₱ 227 million (US$ 4.2 million) and ₱ 198 million (US$3.7 million) on R&D activities, representing 0.4% and 0.3% of sales for the same periods, respectively.

Marketing

The Food Division's marketing efforts are focused on reaching more consumers and promoting increased consumption of its products through brand-building activities in all forms of media, from television and print ads to digital marketing as well as promotional events and sponsorships. The Food Division develops marketing programs that emphasize quality, freshness and convenience of its products. For example, the flagship hotdog brand, *Purefoods Tender Juicy* uses the experts campaign where "Kids Can Tell" the difference between *Purefoods Tender Juicy* and other hotdog brands. For the blue line of canned meats, the key campaign is "*Pure Sarap Purefoods"* (or Purely Delicious) which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is "*Pambansang Manok*" (or roughly translated to as "*National Chicken*") with the theme that if you want the best, then *Magnolia Chicken* is the Nation's Choice. *Magnolia Chicken* is packed with Omega 3, raised in stress-free environments, free from hormones and steroids and free from antibiotic residues. The Food Division taps television and cable commercials, digital presence in both Facebook and YouTube among others, out of home promotions such as billboards, taxi ads and culinary events.

Competition

The Food Division is the market leader in the prepared and packaged food category (excluding coffee), with 15.3% market share in 2017, according to GlobalData.

Prepared and Packaged Food

In recent years, the Prepared and Packaged Food segment has faced increased competition mainly from other local players, which are employing aggressive pricing and promotion schemes. Competitors and competing brands in the branded processed meats category include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Virginia), and Century Pacific Food Inc. (Swift and Argentina). To maintain its leadership position, the Food Division adheres to its very strict quality standards, drives innovation in its portfolio and enhances consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

According to GlobalData as of the year ended December 31, 2017, the Food Division has a 47.8% market share for butter and spreadable fats, competing with Fonterra Cooperative Group Limited and Elle & Vire International (for butter) and CIIF Oil Mills Group (for margarine).

In the cheese category, as of the year ended December 31, 2017, the *Magnolia* brand has a 16.7% market share, which is second to Mondelez International, Inc. (Eden, Cheez Whiz, and Kraft), according to Global Data.

In the ice cream market, Unilever-RFM is the dominant player while Magnolia, Inc. has a 11.4% market share as of the year ended December 31, 2017 according to GlobalData.

As of the year ended December 31, 2017, the Food Division has a 2% market share for coffee based on value sold according to GlobalData. Competitors in the coffee-mix segment include Nestle SA (Nescafe), PT Mayora Indah (Kopiko), and Universal Robina Corporation (Great Taste).

Animal Nutrition and Health

According to GlobalData, the Food Division is the largest producer of commercial feeds in the Philippines, with a market share of 25% of the commercial feeds market by value as of the year ended December 31, 2017. Competitors under the Animal Nutrition and Health segment include major domestic producers such as United Animal Health (JBS United), Aboitiz Equity Ventures (Pilmico), and La Filipina Uy Gongco Corporation (PFMC), as well as numerous regional and local feedmills. There are also foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Protein

Major competitors under the Protein segment include Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and Charoen Pokphand Group. There are also occasional imports from the U.S., Canada and Brazil.

According to GlobalData, the poultry and fresh meats business had a combined market share of 23.5% for the year ended December 31, 2017.

The Philippine fresh meats industry remains highly fragmented consisting mostly of backyard hog raisers. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets.

Others

Major competitors of the flour milling business include General Mills, Inc. and RFM Corporation. Most of its competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. The milling business differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

Local players face competition from imported flour that primarily originates from Turkey, Malaysia and Indonesia. Imported flour has increased its presence through low-cost flour offerings. In order to aggressively compete head-on, the milling business launched "fighting brands" such as *Red Dragon Nova* and *Red Dragon Vega* that match the quality and price of imported flour while maintaining a healthy margin.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights relating to the Food Division's principal products in the Philippines and in foreign markets, including processed meats, dairy, coffee, food service and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through *Monterey Meatshops* and *Magnolia Chicken Stations* and other branded distribution outlets, are either registered or pending registration in the name of SMFB or its subsidiaries.

The Food Division owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *San Mig Coffee, La Pacita, B-Meg* and *Monterey*. Registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms are regularly renewed. Maintenance and protection of these brands and related intellectual property rights are important to ensuring distinctive corporate and market identities.

The Food Division is responsible for defending against any infringements on its brands or other proprietary rights. It monitors products in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the Food Division's brands and other proprietary rights. It retains independent external counsels to alert it of any such attempts and enjoins third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance of packaging of products, which may constitute trademark infringement and/or unfair competition. To monitor the publication for opposition of new trademark applications that may be confusingly similar to the Food Division's registered marks, it regularly coordinates with independent counsels and subscribes to an online trademark watch service.

Quality Control, Health, Safety and Environmental Matters

The Food Division conforms to statutory and regulatory requirements in relation to quality assurance and food safety. GMP is observed across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

The Food Division is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

Quality and food safety standards are applied uniformly across all production facilities, whether company-owned or contracted, through training provided to third-party operators before they commence operations. Food

Division representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. Moreover, Food Division quality assurance personnel conduct periodic operational audits of all production facilities. The Food Division has defined quality assurance and food safety policies and guidelines which are cascaded to the tolling partners to serve as their technical references for the food safety programs managed and implemented across company owned and tolled facilities. To ensure compliance with Food Quality and Food Safety Management systems, trained quality and food safety auditors conduct assessments based on a defined frequency set by the regulatory and quality systems certifying body.

Risk of contamination of products is minimized through strict sanitation procedures and constant monitoring and response. In compliance with the HACCP standards, the Food Division has identified specific stages of processing where preventative measures are undertaken, such as equipment sterilization, hygiene, temperature control and regular equipment testing. The Food Division adheres to a set of systems including proper product storage and handling practices and uses of appropriate facilities and equipment to ensure quality and freshness of products from receipt of raw materials to dispatch of finished goods.

The Food Division is committed to the highest level of food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on HACCP, GMP, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (Republic Act No. 10611) and the requirements of its customers.

As of the date of this Prospectus, the Food Division believes that it is in material compliance with all applicable health, safety and environmental laws.

INFORMATION TECHNOLOGY SYSTEMS

Information technology systems are important to the conduct and management of our businesses, to provide information to relevant persons and entities, to manage operational processes and to prepare financial and other reports. We mainly use the SAP system, which provides a common framework for accounting, production planning, inventory management, procurement, distribution and sales, facility maintenance, human resources and cost management activities. In addition, the Beer and NAB Division uses IBM Planning Analytics for its planning and budgeting activities. The Food Division subscribes to cloud-based Salesforce.com for their sales booking and sales visibility for distributors. We also use Oracle Demantra System for sales forecasting for the Food Division, as well as Integrated Live Operations Systems to record poultry farm transactions. Following the SMFB Consolidation, we aim to further strengthen our information technology systems that will further improve and enhance our operations, processes, and reports.

CUSTOMERS

None of the Beer and NAB, Spirits and Food Divisions rely on any single external customer which accounts for more than 10% of total revenues for the year ended December 31, 2017 and for the six-month period ended June 30, 2018. The divisions as a whole are not dependent on any single customer or a few customers. Thus, the loss of any of our customers would not have a material adverse effect on our operations.

HUMAN RESOURCES

Employees

The table below presents a breakdown of personnel for domestic and international operations of each of the three divisions as of June 30, 2018.

Category	Number of Employees As of June 30, 2018
Executives (Officers and Managers)	
Beer and NAB Division	248
Spirits Division	86
Food Division	334
Other Full-Time Employees	
Beer and NAB Division	4,537
Spirits Division	1,017
Food Division	3,775
Total	9,997

We have employees located both inside and outside the Philippines. The Beer and NAB, Food and Spirits Divisions expect to increase their respective manpower to support capacity expansion and new facilities.

Labor Agreements

In the Beer and NAB Division, there are 10 existing domestic collective bargaining agreements ("**CBAs**") as of June 30, 2018 that cover approximately 40% of employees for domestic operations and five existing collective labor agreements ("**CLAs**") that cover employees in its international operations. The Spirits Division has five existing domestic CBAs as of June 30, 2018 that cover approximately 24% of its employees. Approximately 17% of the employees of the Food Division are parties to various CBAs as of June 30, 2018 and a total of six labor unions represent employees of the various businesses of the Food Division.

Details of the CBAs and CLAs, as applicable, are set out below.

Union		No. of Members	No. of CBAs	Expiration	
				Economic	Representation
Beer and NAB Division - Domestic					
Concerned Workers of SMC – Polo Brewery		219	1	June 30, 2019	July 12, 2020
SMBI Employees Union (SMBIEU) - PTGWO		78	1	June 30, 2019	June 30, 2019
San Fernando Brewery Employees Union (SFBEU)		223	1	Feb 15, 2020	Feb 15, 2020
San Miguel Brewery Inc. Employees Union (SMBIEU)		93	1	Dec 31, 2019	Dec 31, 2019
New San Miguel Sales Force Union		67	1	Jan 31, 2019	Jan 31, 2020
GMA-Monthlies Employees Union-GMAEU-PTGWO		84	1	June 30, 2019	June 30, 2019
San Miguel Brewing Group – Bacolod Brewery Employees Union (SMBG-BEU)		73	1	July 31, 2019	Apr 27, 2019
Philippine Agricultural, Commercial and Industrial Workers Union – Trade Union Congress of the Philippines (PACIWU-TUCP)		41	1	Oct 31, 2019	Oct 31, 2018
*Kahugpongan Sa Ligdong Mamumu-O (KLM)		138	1	Dec 31, 2020	Dec 31, 2020
San Miguel Davao Brewery Employees Independent Union (Dailies)		83	1	Nov 30, 2018	Nov 30, 2017**
Beer and NAB Division - International					
Vietnam – San Miguel Brewery Vietnam Company Limited	SMBVL Trade Union (under the supervision of the Trade Union of the Khan Hoa Industrial & Economic Zone, Khan Hoa Province, Vietnam)	112	1	January 1, 2017	Dec 31, 2019
Indonesia – PT Delta Djakarta Tbk	PTD Trade Union (a member of the Cigarette, Tobacco, Food & Beverage Workers Union, national coverage)	186	1	Agreement is contained in the Company Rules and Regulations which is registered annually with the Department of Labor, Bekasi, Indonesia	
PRC – Guangzhou San Miguel Brewery Company Limited	Trade Union Committee of Guangzhou San Miguel Brewery Co. Ltd.	86	1	Aug 30, 2016	Aug 29, 2019
PRC – San Miguel (Guangdong) Brewery Co., Ltd.	SMGB Trade Union Committee	179	1	June 26, 2016	June 25, 2019
***PRC – San Miguel Baoding Brewery Co., Ltd.	SMBB Trade Union committee	275	1	Sept 1, 2014	Dec 31, 2017

Union	No. of Members	No. of CBAs	Expiration	
			Economic	Representation
Spirits Division				
United Independent Union of GSMI - Cabuyao Plant	77	1	31-Dec-20	31-Dec-22
Ginebra San Miguel Inc. - Freewas Daily Paid Employees Union	20	1	31-Dec-18	31-Dec-17
La Tondeña Distillers, Inc. Workers Union - Sta. Barbara Plant (LATODIWU-SBP) Monthly Paid Independent Union	20	1	31-Dec-19	31- Dec-21
GSMI-SBP-Daily-Paid Workers Independent Union	57	1	31-Dec-19	31-Dec-21
CIO-Distileria Bago Employees Union Chapter	74	1	Dec. 31, 2019	Dec. 31, 2021
Food Division				
SMFI with SMFIEU-PTGWO	137	1	Dec. 31, 2019	Oct 22, 2021
SMFI with MPEU-PTGWO	35	1	Dec 31, 2019	June 30, 2021
SMMI with PFMEU	32	1	Dec 31, 2019	July 31, 2021
Magnolia PWU IBM 47- Cavite	94	1	Feb 28, 2020	Feb 28, 2020
Federasi Serikat Pekerja Seluruh Indonesia Sector Rokok, Tembakau Makanan & Minuman (FSPSIRTMM)	241	1	Dec 31, 2019	Dec 31, 2019
Trade Union Foundation of San Miguel Pure Foods Vietnam	176	1	Dec 31, 2019	Dec 31, 2019

Notes:
**CBA renegotiated prior to expiration (concluded in December 2017)*
***CBA to be renegotiated in 2018*
****CBA undergoing renegotiation. In the meantime, the CBA members continue to be governed by the existing CBA.*

None of the Beer and NAB, Spirits and Food Divisions experienced any strikes or work stoppages in the past five years. Each of the Beer and NAB, Spirits and Food Divisions considers the relationship between the relevant employer entity with its employees to be good and harmonious.

Employee Benefits

In addition to statutory benefits, our Beer and NAB, Spirits and Food Divisions provide insurance, vacation, sick and emergency leaves, transportation and communication allowances and loan facilities to employees.

SMB and some of its international subsidiaries, the Spirits Division (with the exception of East Pacific Bottlers, Inc.) and the major subsidiaries of the Food Division have funded, non-contributory, defined benefit retirement plans covering all of their respective permanent employees.

Under the plan, all regular monthly-paid employees and daily-paid workers are eligible members. For SMB, the Food Division, and the Spirits Division, the compulsory retirement age is 60. However, for regular employees of SMB who were hired prior to October 1, 2011 and for regular employees of the Food Division hired prior to July 1, 2009 other than employees of Purefoods-Hormel, the compulsory retirement age is 65. At the option and discretion of the relevant business unit, an employee’s membership under the plan may be extended on a year-to-year basis after the employee reaches the compulsory retirement age. Eligible members may opt to retire earlier after they have completed at least 15 years of credited service. Upon retirement, eligible members will receive a certain percentage of their final monthly pay for each year of their credited service. The amount varies depending on the years of service of the retiree. Eligible members may receive certain resignation benefits if they resign before they reach an eligible retirement date if they have completed at least five years of service at the relevant entity.

INSURANCE

The Beer and NAB Division, the Spirits Division and the Food Division are insured under an all-risk policy that covers their respective facilities and inventories (other than livestock, in respect of the Food Division) against a variety of risks, including, among others, fire, lightning, catastrophic perils (typhoon, flood, earthquake, volcanic eruption), machinery breakdown, explosion, civil commotion, riot/strike, malicious damage and other perils liability. For the policy period July 2018 to July 2019, the total sum insured under the policy for the domestic operations, are approximately US$803.4 million for the Beer and NAB Division, US$379.4 million for the Spirits Division and US$457.3 million for the Food Division, with a maximum recovery for any single loss amounting to US$250 million for each and every occurrence applied collectively to the San Miguel Group. The Spirits Division maintains business interruption insurance for its production facilities. While the Beer and NAB Division and Food Division do not have business interruption insurance for domestic production facilities but are covered by an "Increased Cost of Working" provision that compensates them for certain additional expenses incurred in continuing their operations following the covered events.

The inventories (located mostly in warehouses) of the Beer and NAB Division, the Spirits Division and Food Division are also covered under a separate "Industrial All-Risk" policy with a total insured value of approximately ₱2.6 billion for Beer and NAB Division, ₱529 million for the Spirits Division and ₱17.7 billion for the Food Division.

In addition the Beer and NAB Division, the Spirits Division and the Food Division, maintain general liability insurance policy that covers third party bodily injury, property damage, product liability as well as liability arising from sudden and accidental pollution or environmental damage, as well as liability insurance for directors and key executive officers. The general liability insurance policy covers all exported products of the Beer and NAB Division.

The Beer and NAB Division, the Spirits Division and the Food Division also have a marine cargo insurance policy to cover the domestic and international shipment of goods and equipment. The Beer and NAB Division's comprehensive general liability insurance policy insures all of its exported products.

Insurance policies are obtained from leading Philippine insurance companies that are generally reinsured with a panel of A-rated reinsurers such as Allianz Global Corporate and Specialty and American International Group.

PROPERTIES

For further information on our properties, see "*Description of Property*" elsewhere in this Prospectus.

LEGAL PROCEEDINGS

Each of the Beer and NAB, Spirits, and Food Divisions, is party to legal proceedings arising out of the ordinary course of business, including legal proceedings with respect to labor, intellectual property, tax and other matters. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of these proceedings will not have a material adverse effect on SMFB's financial condition or results of operations. For further information, see "*Legal Proceedings*" elsewhere in this Prospectus.

DESCRIPTION OF PROPERTY

The general asset description and locations of the various plants and farms owned and leased by each of the Beer and NAB, the Spirits and the Food Divisions as of 6 months period ended June 30, 2018 is set out below.

Beer and NAB Division

The Beer and NAB Division does not have any principal properties that are subject to a mortgage, lien, or encumbrance.

The Beer and NAB Division also leases properties for its businesses, which are subject to varying terms. The annual rental expense for properties leased amounted to ₱735 million in aggregate for the year ended December 31, 2017. Lease agreements are renewed upon such terms and conditions as may be agreed between the parties.

Owned and leased properties are in good condition, ordinary wear and tear excepted. The Beer and NAB Division continuously evaluates available properties for sale based on the needs of the business. Currently, the Beer and NAB Division is in the process of acquiring a parcel of land in Novaliches, Quezon City where its sales office is located, as well as other properties for its expansion projects.

Spirits Division

The Spirits Division does not have any principal properties that are subject to a mortgage, lien, or encumbrance. The Spirits Division leases both real and personal properties for its businesses, which are subject to varying terms. The annual rental expense incurred for properties leased amounted to ₱118 million in aggregate for the year ended December 31, 2017.

Owned and leased properties are in good condition, ordinary wear and tear excepted, and are free from liens and encumbrances. The Spirits Division does not have pending property acquisitions as of the date of this Prospectus. However, it continuously evaluates available properties for sale based on the needs of the business. All of the existing lease contracts contain a provision that the contract is renewable upon agreement by the parties.

Food Division

The Food Division does not have any principal properties that are subject to a mortgage, lien or encumbrance.The Food Division leases both real and personal properties for its businesses, which are subject to varying terms. The annual rental expense for properties leased amounted to ₱2,368 million in aggregate for the year ended December 31, 2017.

Owned and leased properties are in good condition, ordinary wear and tear excepted, and are free from liens and encumbrances. The Food Division has several ongoing processes for property acquisition in different stages such as negotiation, due diligence, documentation, securing regulatory approvals and others. The Food Division continuously evaluates properties available for sale based on the needs of the business. All of the existing lease contracts contain a provision that the contract is renewable upon agreement by the parties.

LEGAL PROCEEDINGS

We are a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. We believe the eventual liability from these lawsuits or claims, if any, will not have a material effect on our financial condition and results of operations. Except as disclosed in Note 37 to the Audited Combined Financial Statements as of and for the years ended December 31, 2017, 2016 and 2015, note 18 to the unaudited condensed consolidated interim financial statements as of June 30, 2018, or elsewhere in this Prospectus, none of SMFB, including SMB and GSMI nor any of their respective subsidiaries is a party to, nor are their properties the subject of, any material pending legal proceeding that could be expected to have a material adverse effect on our business, financial condition and results of operations.

SEC Case

On September 10, 2018, the Philippine SEC served SMC, SMFB and GSMI with summons in respect of a petition (the "**Petition**") filed by Josefina Multi-Ventures Corporation (the "**Petitioner**"). The Petition questions the validity of the share swap transaction between SMFB and SMC and the approval of the increase in the authorized capital stock of SMFB or, asks the SEC to compel SMFB to conduct a mandatory tender offer to the remaining shareholders of GSMI.

The Petition was initiated upon the allegation that the share swap transaction between SMC and SMFB, wherein SMC transferred its common shares in GSMI in exchange for new common shares of SMFB (the "**GSMI Share Swap**"), required the conduct of a mandatory tender offer under the rules of the SRC. Specifically, the Petition questions the GSMI Share Swap and the corresponding increase in SMFB's authorized capital stock for failing to comply with the SRC's implementing rules and regulations. In the alternative, the Petitioner requests the Philippine SEC to direct SMFB to conduct a mandatory tender offer for GSMI's minority shareholders to swap their shares for SMFB shares under the terms of the GMSI Share Swap.

We believe that there is no basis for the Petition. Significantly, prior to the execution of the Deed of Exchange and the filing of the application for Philippine SEC approval of the Capital Increase, SMC and SMFB obtained a written confirmation from the Philippine SEC dated March 19, 2018 stating that the SEC *En Banc* in its meeting on March 13, 2018 confirmed that the Share Swap was not subject to the mandatory tender offer rules of the SRC and the SRC's implementing rules and regulations.

On September 25, 2018, SMC, SMFB and GSMI filed their respective answers to the Petition with the Philippine SEC.

On September 3, 2018, Petitioner filed an Urgent Motion for the Issuance of Status Quo Order ("**Motion**") and prayed that the SEC direct SMFB to cease and desist from (i) the issuance of dividends declared on August 8, 2018 to its common and preferred shareholders; and (ii) the implementation of the Offer. On September 5, 2018, the Philippine SEC ordered that: (i) SMFB, SMC and GSMI file a comment within 10 days from the receipt of the Philippine SEC's order; (ii) Petitioner to file a reply within five days from receipt of the comment of SMFB, SMC and GSMI; and (iii) SMFB, SMC and GSMI to file their comment within five days from receipt of Petitioner's reply. The comments were filed on October 4, 2018 for SMFB and on October 9, 2018 for SMC and GSMI. After receiving the parties' respective comments and replies, the Motion will be submitted for resolution by the Philippine SEC.

Pending the resolution of the Motion, on October 17, 2018, we received, through counsel, an "Urgent Motion to Set Preliminary Conference" filed by the Petitioner requesting that a date for preliminary conference be set immediately.

The information in this section has been derived from various Government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by us, the Joint Global Coordinators, Joint Bookrunners, Local Lead Underwriters, and Financial Adviser, or any of their respective subsidiaries, affiliates or advisors in connection with the Offer and sale of the Offer Shares.

The Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the "**Food Safety Act**") was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the DA and the DOH, their pertinent bureaus, and the local government units. The National Dairy Authority, National Meat Inspection Service ("**NMIS**"), and Bureau of Fisheries and Aquatic Resources under the DA are the government agencies responsible for the development and enforcement of food safety standards and regulations in the primary production and post-harvest stages for milk, meats, and fish, respectively, while the FDA under the DOH is responsible for the safety of processed and pre-packaged foods. The Food Safety Act created the Food Safety Regulation Coordinating Board to monitor and coordinate the performance and implementation of the mandates of the government agencies under the law.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The DA and DOH are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) imported foods shall undergo cargo inspection and clearance procedures by the DA and DOH at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on Food Business Operators ("**FBO**"): (a) FBO shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a FBO considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) FBO shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

For the enforcement of the Food Safety Act, the food safety regulatory agencies are authorized to perform regular inspection of food business operators taking into consideration the compliance with mandatory safety standards; implementation of the Hazard Analysis at Critical Control Points ("**HACCP**") or the science-based system that identifies, evaluates, and controls hazards for food safety at critical points; good manufacturing practices; and other requirements of regulations. It is prohibited to refuse access to pertinent records or entry of inspection officers of the food safety regulatory agencies. It is likewise prohibited, among others, to produce, handle, or manufacture for sale, offer for sale, distribute in commerce, or import any food or food product, which is banned or is not in conformity with applicable quality or safety standard. The commission of any of the prohibited acts under the Food Safety Act can result in imprisonment and/or a fine.

The implementing rules and regulations of the Food Safety Act requires all food businesses, including large and medium scale food businesses engaged in the manufacture of processed and prepackaged food, to have a Food Safety Compliance Officer ("**FSCO**") who has passed a prescribed training course for FSCO recognized by the DA and/or the DOH.

FBOs producing processed and pre-packaged food should develop a Risk Management Plan as basis for the issuance of appropriate authorizations by the DOH. If an FBO considers or has reason to believe that a food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it should immediately initiate procedures to withdraw the food in question from the market and inform the regulatory authority in accordance with the approved product recall program.

FBOs should also report any incident where its product has caused or contributed to the death, serious illness or serious injury to a consumer or any person. The product should be withdrawn from the market, in accordance with the FBO's respective product recall program, and disposed according to the procedures prescribed by the DA and/or the DOH.

The FDA may order a recall if: (a) a distributed product presents a risk of illness or injury or gross consumer deception, (b) the manufacturer or distributor has not initiated a recall, and (c) an agency action is necessary or advisable to protect the public health and welfare. The manufacturer or distributor will be notified of the decision to order a product recall. The notification will specify the violation, the health hazard classification, the recommended recall strategy to be undertaken, and any other instructions appropriate to the conduct of the recall. Within 24 hours after the FDA issues an order for product recall, the FDA will issue a Public Health Alert to alert consumers on serious health hazards or other situations deemed to be in the public interest.

A product recall may also be initiated by a manufacturer or distributor of a violative product (*i.e.*, the product presents a risk of injury or does not conform to registered specifications). The manufacturer or distributor should provide the FDA the following information: (a) identity of the product involved, (b) the reason for the removal or correction and the date and circumstances under which the product deficiency or possible deficiency was discovered, (c) evaluation of the risk associated with the deficiency or possible deficiency, (d) total amount of such products produced and/or the time span of the production, (e) total amount of such products estimated to be in distribution channels, (f) distribution information, including the number of distribution outlets and where necessary, the names and addresses of the distribution channels, (g) copy of the recall communication or proposed communication, (h) proposed strategy for conducting the recall, and (i) name and phone number of the official who should be contacted concerning the recall.

Products which have been subject of a recall must immediately be removed from the market and must not be allowed for distribution and sale. Upon completion of the recall procedure, the concerned company must notify the FDA of the final disposition of the product. If the product is to be destroyed, the destruction should be witnessed by an FDA representative. If the product has been reprocessed to comply with registered specifications, distribution and sale of the reprocessed product will only be allowed following a written recommendation from the FDA to do so.

The FDA may seize the products or seek other court action if a firm refuses to conduct an FDA-ordered recall or where the FDA has reason to believe that a recall would not be effective, a recall is ineffective, or discovers that a violation is continuing.

The DOH, through the FDA, is responsible for the assurance of safety of processed and pre-packaged food products, whether locally produced or imported, including meat products. Renewal of the registration of processed meat and licenses of establishments manufacturing, importing or exporting, selling, offering for sale, transferring, or distributing processed meat should be in accordance with the existing FDA guidelines on renewal of authorizations.

The Food, Drugs and Devices, and Cosmetics Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the "**FDDC Act**"), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act. The FDA requires both a license to manufacture food products, as well as individual certificates of registration for each product to be manufactured or sold in the Philippines.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution or transfer, non-consumer use, promotion, advertisement or sponsorship food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food product by any person or entity without a license to operate from the FDA. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

We have "Licenses to Operate" from the FDA, which are renewable every year.

FDA Rules and Regulations

Consistent with the mandate to adopt and establish mechanisms and initiatives that are aimed to protect and promote the right to health of every Filipino, the FDA issued the Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, which require all food establishments to obtain a License to Operate ("**LTO**") from the FDA before they can validly engage in the manufacture, importation, exportation, sale, offer for sale, distribution, and transfer of food products in the Philippine market. An initial LTO is valid for a period of two years, while a renewed license is valid for five years.

An LTO can be automatically renewed when (a) the application for renewal is filed before the expiration date of the license, (b) the prescribed renewal fee is paid upon filing of the application, and (c) an affidavit of undertaking for automatic renewal with a sworn statement indicating no change or variation in the establishment is attached to the application. An application for renewal of an LTO received after its date of expiration will be subject to a surcharge or penalty.

Further, the LTO subject of an application for renewal will be considered valid and subsisting until a decision or resolution by the FDA is rendered on the application for renewal as long as the application is filed within 120 days from LTO's original expiry. The automatic renewal of an LTO should not preclude the FDA from suspending, revoking or cancelling the same in case the owner violates any of the terms and conditions of the license or other relevant laws and implementing rules and regulations. The assignment or transfer of a valid and unexpired LTO, or pending application for renewal without any change or variation whatsoever in the establishment requires a mere amendment of the LTO or the application, as the case maybe.

The manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product without the proper authorization from the FDA is prohibited and punishable, by imprisonment and fine.

In addition to an LTO, the FDA also requires a Certificate of Product Registration ("**CPR**") for processed food products before said products are distributed, supplied, sold or offered for sale or use in the market. A CPR covering a particular health product constitutes prima facie evidence of the registrant's marketing authority for said health product in connection with the activities permitted pursuant to the registrant's LTO.

For processed food products, the validity of an initial CPR is two years to five years, while a renewed CPR is valid for five years; provided that upon renewal, its holder conforms with the pertinent standards and requirements including labelling regulations.

A CPR may be automatically renewed provided that: (a) the registrant has a current and valid LTO, (b) the product is covered by a current and valid CPR, and (c) there are no deficiencies that need to be corrected before the renewal of the CPR can be granted. The application for renewal must be filed at least 90 days before the expiration of the CPR, although an application for renewal may still be filed within 60 days after the expiration date of the CPR, subject only to the payment of a surcharge.

An expired CPR that has not been renewed within the 60-day grace period cannot be the subject of a renewal application and will be considered an initial application for the registration of the product.

The operation of a food business without the proper authorization from the FDA is prohibited and punishable with a fine. The closure of the establishment may also be imposed as a penalty upon a finding of a commission of a prohibited act.

The Consumer Act

The Consumer Act of the Philippines (the "**Consumer Act**"), the provisions of which are principally enforced by the DTI seeks to: (i) protect consumers against hazards to health and safety, (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of food products. The DOH (which includes the FDA) is the government agency tasked to implement the Consumer Act with respect to food products.

The Consumer Act prohibits the manufacture for sale, offer for sale, distribution, or importation of food products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder. Like the FDDC Act, the Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabeled. In connection therewith, the Consumer Act provides for minimum labeling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public. In addition, the Consumer Act prohibits the false, deceptive or misleading advertisements and sales promotions and deceptive sales acts and practices in connection with food products. Any person found in violation of the provisions of the Consumer Act shall be subject to administrative penalties and/or imprisonment of not less than one year but not more than five years, or a fine of not less than ₱5,000.00 but not more than ₱10,000.00 or both at the discretion of the court. Should the offense be committed by a juridical person, the chairman of the board of directors, the president, general manager, or the partners and/or the persons directly responsible therefore shall be penalized. Under the Consumer Act, The DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Consumer Act sets forth the minimum labeling requirements for consumer products sold in the Philippines. These requirements are: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under license from a principal, the label shall so state the fact. Additional labeling requirements are imposed by the Consumer Act for food products, which are: (a) expiry or expiration date, where applicable; (b) whether the consumer product is semi-processed, fully processed, ready-to-cook, ready-to-eat, prepared food or just plain mixture; (c) nutritive value, if any; and (d) whether the ingredients used are natural or synthetic, as the case may be.

For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Livestock and Poultry Feeds Act

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the "**Livestock and Poultry Feeds Act**"), regulates and controls the manufacture, importation, labeling, advertising, distribution, and sale of livestock and poultry feeds. The Bureau of Animal Industry (the "**BAI**") is the governmental office under the DA tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis. The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

Our feedmills, whether Company-owned or tolled, are all registered with the BAI and we pay monthly inspection fees based on the number of metric tons of feeds produced. We also seek approval from the BAI for brand names and register every new product prior to market launch. To obtain the brand name clearance and product registration, we submit a notarized Application for Feed Product Registration, Results of Analysis and three copies of feed tags to be inserted in the packaging of the new product. Based on this information, the BAI makes a determination as to whether the new product is within its specifications.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the "**Meat Inspection Code**") establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The NMIS, a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

Said Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The DA requires all operators and/or owners of postharvest meat establishments to subject their facilities for evaluation for the issuance of an LTO by the NMIS.

Our poultry processing plants and livestock slaughter plants, both Company-owned and tolled, are all accredited by NMIS. Since our plants have all been issued an LTO, CPR, and/or Export Commodity Clearance Certificate by the FDA, products from those plants qualify for distribution to any location throughout the Philippines or for export. Plant accreditations are renewed annually following inspection by NMIS for compliance with the Good Manufacturing Practices, Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Points. NMIS inspectors are also stationed at each of our poultry processing plants and livestock slaughter plants on a daily basis and issue certifications for each batch of products that is shipped from any of those plants.

The Price Act

The Price Act covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

Under the Price Act, the prices of basic commodities may be automatically frozen in areas declared as disaster areas, under emergency or martial law or in a state or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the "**PFF Act**") provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and foodservice establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

All Magnolia-branded products are compliant with the PFF Act. For example, we use iodized salt in Magnolia products to comply with Republic Act No. 8172 (An Act for Salt Iodization Nationwide).

For wheat flour, the addition of Vitamin A and Iron are mandated under standards set by the DOH. Our flour business has been compliant with the requirements of the PFF Act since 2004.

Government Regulations on the Manufacture and Wholesale of Alcoholic Beverages

Beverages are included in the definition of "food" and are within the coverage of the Food Safety Act. An LTO and other requirements specified in the Food Safety Act and its implementing rules and regulations are likewise necessary for establishments engaged in the manufacturing, importation, exportation, sale, offer for sale, distribution, transfer, use, testing, promotion, advertisement, and/or sponsorship of alcoholic beverages. Alcoholic beverages have been classified by the FDA as low risk food products in based on the Codex Alimentarius General Standard for Food Additives and the UN Food and Agriculture Organization Risk Categories. Food establishments classified as high risk are prioritized for inspection by the FDA.

The Philippine Securities and Exchange Commission

Under the SRC, the Philippine SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the Philippine SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Philippine Corporation Code, and certain other statutes.

The Bangko Sentral ng Pilipinas

The BSP is the central bank of the Philippines. It was rechartered on July 3, 1993, pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP was established on January 3, 1949, as the country's central monetary authority. Among its functions is the management of foreign currency reserves, by maintaining sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.

The Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers.

The Board of Investments

The Philippine Board of Investments ("**BOI**"), is the lead government agency responsible for the regulation and promotion of investments in the Philippines. The BOI assists Filipino and foreign investors to venture and prosper in desirable areas of economic activities. Entities registered with the BOI are given incentives by the government such as: income tax holiday, additional deduction from taxable income based on labor expense, tax and duty exemption on imported capital equipment, tax credit on domestic capital equipment, exemption from contractor's tax, and tax credit for taxes and duties on raw materials. To be qualified for BOI registration, the entity must, among other requirements provided by the Omnibus Investments Code of 1987, be engaged in a preferred activity in the current Investment Priorities Plan.

The Department of Labor and Employment

The Department of Labor and Employment ("**DOLE**") stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

The Philippine Labor Code

On March 15, 2017, the DOLE issued Department Order No. 174 s. 2017 (D.O. 174) implementing the provisions of the Labor Code on contracting and subcontracting arrangements. D.O. 174 prohibits Labor-only contracting which are arrangements where the contractor or subcontractor: (a) (i) does not have substantial capital, or (ii) does not have investments in the form of tools, equipment, machineries, supervision, and work premises, among others, and (iii) recruits or places employees performing activities which are directly related to the main business operation of the principal; or (b) the contractor or subcontractor does not exercise control over the performance of the work of the employee.

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private-sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five (5) years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six (6) months being considered as one (1) whole year. For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: fifteen days salary based on the latest salary rate; in addition, one-twelfth of the thirteenth month pay and the cash equivalent of five (5) days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

Occupational Health and Safety Standards

On August 17, 2018, Republic Act No. 11058 or the Occupational Safety and Health Law was signed into law. It requires employers to furnish workers a place of employment free from hazardous conditions causing or are likely to cause death, illness or physical harm, among other things. The law prescribes penalties for the willful failure or refusal of an employer, contractor or subcontractor to comply with the required standards or with a duly issued compliance order. The refusal is penalized by an administrative fine not exceeding P100,000.00 per day until the violation is corrected, counted from the date the employer or contractor is notified of the violation or the compliance order is duly served. An employer, project owner, general contractor, contractors or subcontractor, and any person who manages, controls or supervises the work being undertaken is jointly and solidarily liable for compliance with the law.

Social Security System, PhilHealth, and Home Development Mutual Fund

An employer is required under the Social Security Act of 1997 (RA 8282), as amended, ensure coverage of its employees following procedures set out by the law and the Social Security System ("**SSS**"). As employer, we must deduct from our employees their monthly contributions based on a given schedule, pay our share of contribution and remit these to the SSS within a period set by law and SSS regulations.

Philippine Health Insurance Corporation (or "**PhilHealth**") is a government corporation attached to the DOH, that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995, as amended. Employers are required to ensure enrollment of its employees in the National Health Program being administered by the PhilHealth.

Presidential Decree No. 1752, as amended, requires all employers covered by the Social Security System to register and remit contributions to the Home Development Mutual Fund, more commonly known as the Pag-IBIG Fund (the "**Fund**"). Every private employer is required to register with the Fund for purposes of making required contributions on behalf of its employees. It shall be the responsibility of the employer to deduct the employees' share from such employees' salaries and remit the entire amount of required contributions to the Fund.

The Data Privacy Act

The Data Privacy Act and its Implementing Rules and Regulations ensure the security of personal data and information and impose certain requirements and obligations to entities involved in the processing of personal data. Companies involved in the processing of personal data were required to appoint a Data Protection Officer and adopt a Personal Data Privacy Policy by September 1, 2017. The National Privacy Commission is tasked to administer and implement the provisions of the law and its rules and regulations.

Considering that the Company and its operating subsidiaries are involved in the processing of personal data, be it from customers, suppliers and employees, the Company and its operating subsidiaries appointed a Data Protection Officer and adopted a Personal Data Privacy Policy within the prescribed period. The policy provides for organizational, physical and technical security measures geared towards data protection. It likewise recognizes the rights of the data subject to information, access and rectification of his personal information, among others. It also provides for the procedure to be undertaken in the event of data breaches or security incidents. The policy further requires that all outsourcing arrangements of the group involving personal data collection, be compliant with the requirements of the law.

ENVIRONMENTAL MATTERS

The operations of our various businesses are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Environmental Impact Statement System Law

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB while a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "**IEE**") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required.

The EIS refers to both the document and the study of the environmental impact of the project, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Clean Water Act

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Philippine Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes said owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time.

The discharge permit specifies the quantity and quality of effluents that the holder of the permit is allowed discharge as well as the validity of the permit. The quantity and quality shall be based on the installed capacity of the facility. The discharge permit is valid for a maximum period of five years from the date of its issuance, renewable for five-year periods thereafter. The DENR may, however, renew the discharge permit valid for a longer period if the applicant has adopted waste minimization and waste treatment technologies, consistent with incentives currently provided has been paying the permit fees on time.

The Water Code

Presidential Decree No. 1067, or "The Water Code of the Philippines", requires a water permit for the appropriation of water from any public water source such as rivers, creeks, brooks, springs, lakes, lagoons, swamps, marshes, subterranean, or groundwater and seawater for, among others, industrial purposes (i.e., utilization of water in factories, industrial plants and mines including the use of water as an ingredient of a finished product). Appropriation of water without the necessary water permit is considered a grave offense and is punishable by fine. In cases where the offender is a corporation, firm, partnership or association, the penalty will be imposed upon the guilty officers.

Clean Air Act

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to have a valid Permit to Operate while new or modified sources must first have an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the *Kapisanan ng mga Brodkaster ng Pilipinas*, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Local Government Code

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit

("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Businesses are required to obtain a Mayor's Permit (local business permit) from the local government unit having jurisdiction over the area where an entity seeks to operate before it can lawfully do business in a certain city or municipality. A Mayor's Permit is issued only after compliance with certain local government requirements, including, but not limited to, a Sanitary Permit, Certificate of Electrical Inspection, Fire Safety Inspection, Locational Clearance, Barangay Business Clearance and payment of the required fees. These ancillary permits are valid for one year and must be renewed before the Mayor's Permit is issued. Failure to obtain a mayor's permit may expose an entity to fines and penalties, and even suspension or closure of its business.

Under the implementing rules and regulations of the Food Safety Act, LGUs are mandated to issue business permits to FBOs indicating compliance with the LGU's sanitation code and such other food safety requirements that may be prescribed by the LGU. Such permit authorizes FBOs to market their products within the territorial jurisdiction of the LGU.

Other Relevant Tax-Related Regulations

On July 21, 2014, the Food and Drug Administration issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the Food and Drug Administration Certification for Animal Feeds and Products. The FDA issued the circular pursuant to BIR Revenue Memorandum Circular No. 55-2014 which required FDA certification that imported livestock and poultry feeds or ingredients thereof are not fit for human consumption before the same would be considered exempt from VAT.

Other Laws

Other regulatory environmental laws and regulations applicable to our businesses include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Said Act is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board of Directors consists of nine members who hold at least one share each in the capital stock of the Company and are proven to possess integrity and probity in addition to the other qualifications of a director specified in the Company's Manual on Corporate Governance. They are elected by the stockholders with voting rights during the Annual Stockholders' Meetings ("**ASM**"). The Board members hold office for one year and until their successors are duly elected and qualified in accordance with the SMFB's by-laws and applicable laws and regulations.

The table below sets forth each member of our Board of Directors as of the date of this Prospectus.

Name	Age	Nationality	Position
Eduardo M. Cojuangco, Jr.	83	Filipino	Chairman of the Board
Ramon S. Ang	64	Filipino	Vice Chairman of the Board
Francisco S. Alejo III	69	Filipino	Director
Menardo R. Jimenez	85	Filipino	Director
Ma. Romela M. Bengzon	57	Filipino	Director
Carmelo L. Santiago	75	Filipino	Independent Director
Minita V. Chico-Nazario	78	Filipino	Independent Director
Ricardo C. Marquez	57	Filipino	Independent Director
Cirilo P. Noel	61	Filipino	Independent Director
Aurora T. Calderon*	64	Filipino	Director
Ferdinand K. Constantino*	66	Filipino	Director
Roberto N. Huang*	69	Filipino	Director
Emmanuel B. Macalalag*	52	Filipino	Director

** Subject to Philippine SEC approval of the amendment of the articles of incorporation to increase the number of directors from 9 to 15.*

The table below sets forth our key executive and corporate officers as of the date of this Prospectus.

Name	Age	Nationality	Position
Ramon S. Ang	64	Filipino	President and Chief Executive Officer
Francisco S. Alejo III	69	Filipino	Chief Operating Officer – Food
Roberto N. Huang	69	Filipino	Chief Operating Officer – Beer
Emmanuel B. Macalalag	52	Filipino	Chief Operating Officer – Liquor
Ferdinand K. Constantino	66	Filipino	Treasurer
Ildefonso B. Alindogan	44	Filipino	Vice President, Chief Finance Officer and Strategy Officer
Alexandra B. Trillana	44	Filipino	Corporate Secretary and Compliance Officer
Kristina Lowella I. Garcia	44	Filipino	Assistant Vice President, Investor Relations Manager

Board of Directors and Key Executives and Officers

A process of selection to ensure a mix of competent directors aligned with our strategic directions is implemented. The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensures comprehensive evaluation of, and sound judgment on, matters relevant to our businesses and related interests. More than 50% of our Board of Directors is comprised of non-executive directors. Further, we are compliant with the new Code of Corporate Governance issued by the Philippine SEC effective January 1, 2017 (the "**CG Code**"), which requires at least three independent directors or such number as to constitute at least one-third of the members of the Board, whichever is higher. All our independent directors do not have ties to SMFB's management and substantial shareholders.

Our independent directors are nominated and elected in accordance with the rules of the Philippine SEC. Under the CG Code, an independent director may serve as such for a maximum cumulative term of nine years. After which, the independent director, will be perpetually barred from re-election, but may continue to qualify for nomination and election as a non-independent director. However, in the instance that a corporation would want to retain an independent director who has served for nine years, the board of directors should provide meritorious justification and seek shareholders' approval during the ASM.

Further, in business conglomerates such as the San Miguel Group of which SMFB is a member, an independent director may be elected as such to only five corporations of the conglomerate.

Pursuant to these rules, each of our independent directors issues and submits to the Corporate Secretary for filing with the Philippine SEC, a certification confirming that he/she possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election.

The Board holds regular meetings on a quarterly basis to review and approve the quarterly report (or Philippine SEC Form 17-Q), including financial statements as at and for the quarter just ended, and an organizational meeting immediately following the adjournment of the ASM for the election of our key corporate officers and senior management led by the President and the heads of the other control functions (i.e., Chief Finance Officer, Compliance Officer, internal audit group head), Board committee members, lead independent director, and trustees of the our retirement fund, and the designation of authorized signatories and signing limits for banking and other corporate transactions. Board meetings are scheduled before the beginning of the year. In particular, during the last regular meeting of the year, the Board sets the dates for its regular and organizational meetings for the succeeding year.

Immediately after such last Board meeting for the year, which is usually held in the second week of November, as part of the nomination and election process for directors, which the Board assessed as effective, SMFB discloses the date of the following year's ASM and invites stockholders who wish to nominate candidates to the Board, to submit the names of their nominees not later than January 31 of the following year, to the Corporate Secretary at the 22nd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, for the consideration of the Chairman and the Corporate Governance Committee.

The business experience for the last five years of members of our Board of Directors and key executives and officers are set forth below.

Eduardo M. Cojuangco, Jr. is the Chairman and a non-executive director of the Company, a position he has held since May 22, 2001, and Chairman of the Company's Executive Committee (since April 25, 2002). He is also Chairman and Chief Executive Officer of listed companies San Miguel Corporation and Ginebra San Miguel, Inc. He is likewise the Chairman of listed company Petron Corporation, and private companies ECJ and Sons Agricultural Enterprises, Inc., San Miguel Northern Cement, Inc., Northern Cement Corporation and the Eduardo Cojuangco, Jr. Foundation, Inc.; and a Director of Caiñaman Farms, Inc. Mr. Cojuangco attended the College of Agriculture, University of the Philippines, as well as California Polytechnic College in San Luis Obispo, U.S.A. Among others, he was conferred the Degree of Doctor of Economics *Honoris Causa* by the University of Mindanao and the Degree of Doctor of Agri-Business *Honoris Causa* by the Tarlac College of Agriculture.

Ramon S. Ang was appointed President and Chief Executive Officer of the Company on July 5, 2018. He is also Vice Chairman of the Company, a position he has held since May 13, 2011. He has been a non-executive director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002). He was a member of the former Executive Compensation Committee (from November 2013 to May 2017). He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of listed company San Miguel Corporation; Chairman and President of SMC Global Power Holdings Corp., San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc. and San Miguel Energy Corporation; Chairman of listed companies Eagle Cement Corporation, San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange) and Petron Malaysia Refining and Marketing Bhd. (a company publicly listed in Malaysia), public company San Miguel Brewery Inc., and private companies SEA Refinery Corporation, San Miguel Yamamura Packaging Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc. and Manila North Harbour Port, Inc. He is also the President and Chief Executive Officer of listed companies Top Frontier Investment Holdings Inc. and Petron Corporation, and private company Northern Cement Corporation; and President of listed company Ginebra San Miguel, Inc. and private company, San Miguel Northern Cement, Inc. He is also the sole director and shareholder of Master Year Limited and Chairman of Privado Holdings, Corp. He formerly held the following positions: Chairman of Liberty Telecom Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc. and private company Philippine Airlines, Inc.; and Vice-Chairman of the Board and Director of Manila Electric Company and Air Philippines Corporation. Mr. Ang holds a Bachelor's Degree in Mechanical Engineering from Far Eastern University, and a Doctorate in Business Engineering, Honoris Causa, from the same university.

Francisco S. Alejo III was appointed Chief Operating Officer – Food on July 5, 2018. Before this appointment, he was the President of the Company, a position he has held since May 20, 2005. He has been an executive director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002). He was a member of the former Nomination and Hearing Committee (from May 2005 to May 2017). He also holds the following positions: Chairman and President of RealSnacks Mfg. Corp.; Chairman of Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Pure Foods (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp. and Philippine Prime Meat Marketing Corporation; Vice Chairman of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc. and Magnolia Inc.; Director of listed company Ginebra San Miguel, Inc. and private companies San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International, Limited (BVI); and President Commissioner of PT San Miguel Pure Foods Indonesia. Mr. Alejo holds a Bachelor's Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

Menardo R. Jimenez has been a non-executive director of the Company since April 25, 2002. He is a member of its Audit Committee (since June 27, 2008), Related Party Transactions Committee (since May 12, 2017) and Board Risk Oversight Committee (since May 12, 2017). He was Chairman of the former Executive Compensation Committee (from May 2006 to May 2017) and Nomination and Hearing Committee (from November 2013 to May 2017). Mr. Jimenez is a Director of listed company San Miguel Corporation and private company Magnolia Inc. He likewise holds the following positions: Chairman of Majent Management and Development Corporation, Coffee Bean and Tea Leaf Holdings, Inc. and Meedson Properties Corporation. He was previously Chairman of United Coconut Planters Banks from 2011 to 2017. Mr. Jimenez holds a Bachelor's Degree in Commerce from Far Eastern University and is a Certified Public Accountant. Among others, he was conferred Doctorates in Business Management *Honoris Causa* by University of Pangasinan and *Pamantasan ng Lungsod ng Maynila*.

Ma. Romela M. Bengzon has been a non-executive director of the Company since May 11, 2018. Atty. Bengzon is currently a director of private companies Petron Marketing Corporation, Webforge Philippines, Diezmo Realty Inc. and Geonobel Philippines. She is Managing Partner of the Bengzon Law Firm. Atty. Bengzon holds a Bachelor of Arts Degree in Political Science from University of the Philippines and a Bachelor of Laws Degree from Ateneo de Manila University School of Law. She is also a member of the New York State Bar.

Carmelo L. Santiago has been an independent and non-executive director of the Company since August 12, 2010. He is the Chairman of the Company's Audit Committee (since November 7, 2013) and a member of the Company's Corporate Governance Committee (since May 12, 2017), Related Party Transactions Committee (since May 12, 2017) and Board Risk Oversight Committee (since May 12, 2017). Mr. Santiago was Chairman of the former Nomination and Hearing Committee (from May 2011 to May 2017) and was a member of the former Executive Compensation Committee (from June 2008 to May 2017). He is an Independent Director of public company San Miguel Brewery Inc.; and Director of Terbo Concept, Inc. and Aurora Pacific Economic Zone and Freeport Authority. He is also an Independent Non-Executive Director of San Miguel Brewery Hong Kong Limited. Mr. Santiago is the Founder and Chairman of Melo's Chain of Restaurants and the Founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from University of the East.

Minita V. Chico-Nazario has been an independent and non-executive director of the Company since May 8, 2015. She is also Chairperson of the Company's Corporate Governance Committee (since May 12, 2017) and Related Party Transactions Committee (since May 12, 2017), and member of the Company's Executive Committee and Audit Committee (since May 8, 2015). Justice Nazario is likewise currently an Independent Director of listed companies Top Frontier Investment Holdings Inc. and Ginebra San Miguel, Inc., and private company San Miguel Properties, Inc.; Chairman of the Philippine Grains International Corporation, and Director of Mariveles Grain Corporation. She is also a Legal Consultant of Union Bank of the Philippines, United Coconut Planters Bank and Philippine Investment One & Two, Inc. She is the incumbent Dean of the College of Law of the University of Perpetual Help in Las Piñas City. She has served the Judiciary in various capacities for 47 years, with the last position she held being Associate Justice of the Supreme Court (from February 2004 to December 2009). Justice Nazario holds a Bachelor of Arts and a Bachelor of Laws Degree from University of the Philippines and is a member of the New York State Bar.

Ricardo C. Marquez has been an independent and non-executive director of the Company since March 16, 2017. He is also Chairman of the Company's Board Risk Oversight Committee (since May 12, 2017) and a member of the Company's Audit Committee (since March 16, 2017), Corporate Governance Committee (since May 12, 2017) and Related Party Transactions Committee (since May 12, 2017). Gen. Marquez is likewise currently an Independent Director of listed company Eagle Cement Corporation and a Director of the Public Safety Mutual Benefit Fund, Inc. He was previously Chairman of the Board of said corporation (July 2015 to June 2016). Gen.

Marquez held several positions in the Philippine National Police (PNP). In the last five years, he was Chief of the PNP (from July 2015 to June 2016), Director of Operations (from December 2013 to July 2015), Regional Director, Police Regional Office 1 (from January to December 2013), Deputy Director for Operations (from March 2012 to January 2013), and Executive Officer, Directorate for Investigation and Detective Management (from August 2010 to March 2012). Gen. Marquez holds a Bachelor of Science Degree from the Philippine Military Academy, and a Masters in Management Degree from Philippine Christian University.

Cirilo P. Noel has been an independent and non-executive director of the Company, as well as a member of the Company's Audit Committee and Related Party Transactions Committee, since September 12, 2018. He is also Director and Chairman of the Audit Committee of St. Luke's Medical Center and Globe Telecoms, Inc.; Chairman of Palm Concepcion Power Corporation; and Director of Security Bank, LH Paragon Inc., JG Summit Holdings, PAL Holdings, Philippine Airlines, Cal-Comp Technology Philippines, and Amber Kinetics Philippines. Mr. Noel is a founding Board Member of the US-Philippines Society as well as the Audit Committee Chairman and a Trustee of the Makati Business Club. He is a Member of the ASEAN Business Club. Mr. Noel continues to serve as a Trustee of the SGV Foundation. He held various positions in SGV & Co., the last of which was Chairman and Managing Partner (from February 2010 to June 2017). Mr. Noel holds a Bachelor of Science Degree in Business Administration from University of the East, a Bachelor of Laws Degree from Ateneo de Manila University School of Law and a Masters Degree in Law from Harvard Law School. He also a fellow of the Harvard International Tax Program and attended the Management Development Program at the Asian Institute of Management.

Roberto N. Huang* was appointed Chief Operating Officer – Beer on July 5, 2018. He is Director and President of San Miguel Brewery Inc., a position that he has held since May 2009. He is also a member of San Miguel Brewery Inc.'s Executive Committee. He is also a Director of San Miguel Brewing International Limited and San Miguel Brewery Hong Kong Limited; and Chairman and President of Iconic Beverages, Inc., Brewery Properties Inc. and Brewery Landholdings, Inc. He was director and general manager of San Miguel Brewery Inc. from October 2007 to April of 2009. Mr. Huang has also served the San Miguel Group in various capacities prior to joining San Miguel Brewery Inc., including President of Coca-Cola Bottlers Philippines Inc., Cosmos Bottling Corporation, Philippine Beverage Partners Inc. and San Miguel Beverages, Inc.; Senior Vice President and Director for the Corporate Sales of SMC's Food and Beverage units; and Vice President and Director for Corporate Sales of the SMC Beverage Group. Mr. Huang holds a Bachelor of Science Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University.

Emmanuel B. Macalalag* was appointed Chief Operating Officer – Liquor on July 5, 2018. He currently holds the following positions in the various subsidiaries and affiliate of GSMI: Director and General Manager of Distileria Bago, Inc. and East Pacific Star Bottlers Phils Inc., and Director of Thai San Miguel Liquor Company Limited (TSML). He previously held the following positions in the Company: Manufacturing Group Manager, Manufacturing Operations Group Manager, Planning and Management Services Manager, Business Planning and Development Manager and Business Planning and Investor Relations Manager. He was also a Deputy General Manager of TSML. Mr. Macalalag obtained his Bachelor of Science in Mathematics degree from De La Salle University (DLSU), Manila where he graduated cum laude. He also holds a Master's degree in Mathematics also from DLSU and PhD degree in Operations Research from the University of Melbourne, Australia.

Ferdinand K. Constantino* was appointed Treasurer of the Company on July 5, 2018. He is Director of San Miguel Brewery Inc. and is the Chairman of San Miguel Brewery Inc.'s Executive Compensation Committee and a Member of its Audit Committee and Governance and Nomination Committee. He also holds, among others, the following positions: Chief Finance Officer and Treasurer of SMC; Director of Top Frontier Investment Holdings, Inc. and listed company Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia); Director and Vice Chairman of SMC Global Power Holdings, Corp; President of Anchor Insurance and Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, Citra Metro Manila Tollways Corporation, Clariden Holdings Inc, San Miguel Holdings Corp. and San Miguel Consolidated Power Corporation and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc. and Philippine Airlines Inc. Mr. Constantino holds a Bachelor of Arts Degree in Economics from the University of the Philippines and competed academic requirements for a Master's Degree in Economics from the University of the Philippines.

** Elected as Director of the Company during the September 12, 2018 special stockholders' meeting, subject to the Philippine SEC approval of the amendment of the articles of incorporation to increase the number of directors from 9 to 15.*

Ildefonso B. Alindogan was appointed Vice President, Chief Finance Officer and Strategy Officer of the Company on July 5, 2018. He joined the San Miguel Group of companies on April 26, 2018. Before joining San Miguel, he was employed at Standard Chartered Bank, Manila, as Executive Director – Head of Philippines FX and Rates Trading, Financial Markets (September 2012 to March 2018) and Director – Sales, Financial Markets (September 2010 to August 2012). Prior to Standard Chartered Bank, he held positions in Treasury and Corporate Finance for various financial institutions. Mr. Alindogan holds a Bachelor of Science Degree in Management Engineering (Honors Program) from Ateneo De Manila University and a Masters in Business Administration, Major in Finance from The Wharton School, University of Pennsylvania.

Alexandra Bengson Trillana is the Corporate Secretary (since September 15, 2010) and Compliance Officer (since August 8, 2016) of the Company. She is also Vice President and General Counsel of the Food Division; and Corporate Secretary of San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia, Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, Golden Bay Grain Terminal Corporation, Golden Avenue Corp., RealSnacks Mfg. Corp. and Foodcrave Marketing, Inc. She was previously Assistant Corporate Secretary of the Company (from April 26, 2004 to September 14, 2010); and Senior Manager – Commercial Transactions of San Miguel Corporation's Office of the General Counsel (from August 2005 to December 2009). Atty. Trillana holds a Bachelor's Degree in Commerce Major in Legal Management from De La Salle University and a Juris Doctor Degree from Ateneo de Manila University School of Law.

Kristina Lowella I. Garcia was appointed Assistant Vice President, Investor Relations Manager of the Company effective August 1, 2018. She was previously a Director for Investor Relations of Century Properties Group, Inc. (January 2013 to July 2018). She was likewise Director for Investor Relations of Megaworld Corporation and, subsequently, Alliance Global Group, Inc. (March 2007 to September 2012). Ms. Garcia holds a Bachelor of Arts Degree from Ateneo De Manila University, a Certificate in Business Administration from Georgetown University, and a Masters in Business Administration from John Hopkins University.

Aurora T. Calderon[5] is a Director and the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC. She is a member of the Corporate Governance Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of Petron Corporation, Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia) and Ginebra San Miguel, Inc. She is also a member of the board of directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, and San Miguel Equity Investments Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. She finished her Masters in Business Administration at Ateneo de Manila University (without thesis). In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Corporate Governance

We recognize that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. Our Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

Our Board of Directors, led by Chairman Eduardo M. Cojuangco, Jr., believe in conducting the business affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

Manual on Corporate Governance

The first Manual on Corporate Governance of the Company was approved by the Board of Directors in August 2002. In May 2017, the Board of Directors approved a new Manual on Corporate Governance (the "**Manual**") to align with the Code of Corporate Governance for Publicly-Listed Companies issued by the Philippine SEC under Philippine SEC Memorandum Circular No. 19, series of 2016. The Manual is available for examination in the Company's corporate website at http://www.smfb.com.ph/corpgovmanual.pdf.

[5] *Elected as Director of the Company during the September 12, 2018 special stockholders' meeting, subject to the Philippine SEC approval of the amendment of the articles of incorporation to increase the number of directors from 9 to 15.*

Our monitoring of the implementation of the evaluation system to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

To ensure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer for the Company, Atty. Alexandra Bengson Trillana. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual, as may be amended from time to time, applicable laws and the rules and regulations of the relevant regulatory agencies. The Compliance Officer holds the position of Vice President and has direct reporting responsibilities to the Chairman of the Board.

In August 2017, the Board approved the adoption by the Corporate Governance Committee, Related Party Transactions Committee and Board Risk Oversight Committee of their respective Charters, as reviewed and endorsed by each Committee. The approval of the adoption by the Audit Committee of its Charter was approved by the Board in August 2012 upon the endorsement of the Audit Committee. The Charters of the Audit Committee, Corporate Governance Committee, Related Party Transactions Committee and Board Risk Oversight Committee each outline the purpose, membership and qualifications, structure and operations, duties and responsibilities, reporting process and performance evaluation of the said Board Committees, and the procedures which shall guide the conduct of its functions, to ensure adherence by the Company to the best practices of good corporate governance. The full texts of said Charters may be viewed at the Company's corporate website at http://www.smfb.com.ph/boardcommitteecharters.pdf.

The Company submitted its first Integrated Annual Corporate Governance Report (I-ACGR) on May 29, 2018 in accordance with Philippine SEC Memorandum Circular No. 15, series of 2017. Such I-ACGR is posted in the Company's corporate website at http://www.smfb.com.ph/acgr.pdf, for the guidance of the investing public.

The Company encourages its directors and officers to attend continuous professional education programs.

The Company organizes an annual seminar or program on Corporate Governance for directors and key officers, in accordance with Philippine SEC regulations. In the seminar organized by the Company in September 2017, the topics covered in the four-hour course were an effective corporate governance model, key developments in the field of corporate governance, the new Corporate Governance Code for Publicly-Listed Companies, fraud awareness, cybercrime, anti-fraud programs, and a case study. By the end of 2017, all incumbent directors and key officers of the Company attended the required annual seminar for the year on corporate governance conducted by a training provider duly accredited by the Philippine SEC.

Pursuant to our commitment to good governance and business practice, we continue to review and strengthen our policies and procedures, giving due consideration to developments in the area of corporate governance, which we determine to be in the best interests of the Company and our stockholders.

Committees of the Board of Directors

Our Board of Directors appoint directors to the five Board committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified. The five committees are: (i) the Executive Committee; (ii) the Audit Committee; (iii) the Related Party Transactions Committee; (iv) the Board Risk Oversight Committee; and (v) the Corporate Governance Committee. The attendance of a majority of its members will constitute a quorum for the committee to transact business. The committee will act only on the affirmative vote of at least a majority of the members present at a meeting at which there is a quorum. The by-laws of the Company nevertheless provides that no corporate policies, decisions or actions will be taken by the Board of Directors or any committee of the Board of Directors without the vote of at least two-thirds of the entire membership of the Board or committee on any matters not in furtherance of the business currently carried on by the Company.

Executive Committee

The Executive Committee is tasked to help and assist the officers in the management and direction of the affairs of the Company. It acts within the powers and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee is currently composed of four* directors that include the Chairman of the Board and the President. The Executive Committee chairperson is Mr. Eduardo M. Cojuangco, Jr. The members of the committee are Messrs. Ramon S. Ang, Francisco S. Alejo III, and Roberto N. Huang*.

Audit Committee

The Audit Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements, elevating to international standards the accounting and auditing processes, practices and methodologies of the Company. The committee performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management. The Audit committee has primary responsibility for recommending the appointment and removal of the Company's external auditor. Presently, the Company's external auditor is R.G. Manabat & Co.

The Audit Committee is composed of five* members, a majority of whom are non-executive and independent directors. All committee members have relevant background, knowledge, skills or experience in the areas of accounting, auditing and finance. The members of the committee are Mr. Cirilo P. Noel (Independent), Mr. Ricardo C. Marquez (Independent), Mr. Menardo R. Jimenez and Ms. Aurora T. Calderon*. The chairperson of the Audit Committee is Mr. Carmelo L. Santiago (Independent).

Related Party Transactions Committee

The Related Party Transactions Committee is tasked to review all material related party transactions ("**RPTs**") of the Company to make certain that these are entered into, as a matter of policy, on an arms-length basis and at market rates. It shall evaluate existing relations between and among businesses and counterparties to ensure the identification of all related parties, including changes in relationships of counterparties, and that RPTs are monitored. The committee is responsible for ensuring that appropriate disclosures are made relating to the Company's RPT exposures and policies on conflict of interest. It shall also oversee the periodic review of RPT policies and procedures.

The Related Party Transactions Committee is composed of five* members, a majority of whom are non-executive and independent directors. The members of the committee are Ms. Minita V. Chico-Nazario (Independent) currently the Chairperson, Mr. Cirilo P. Noel (Independent), Mr. Carmelo L. Santiago (Independent) and Mr. Ricardo C. Marquez (Independent) and Mr. Menardo R. Jimenez.

Board Risk Oversight Committee

The Board Risk Oversight Committee is responsible for the oversight of the Company's enterprise risk management ("**ERM**") system to ensure its functionality and effectiveness. The committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the Board of the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Company.

The Board Risk Oversight Committee is composed of five* non-executive directors, a majority of whom are independent directors. The Board Risk Oversight committee chairperson is Mr. Ricardo C. Marquez (Independent). The members of the committee are Mr. Carmelo L. Santiago (Independent), Ms. Minita V. Chico-Nazario** (Independent), Mr. Menardo R. Jimenez and Mr. Ferdinand K. Constantino*.

Corporate Governance Committee

The Corporate Governance Committee is tasked to ensure the Company's compliance and proper observance of corporate governance principles and practices. It oversees the implementation of the Company's corporate

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**Subject to Philippine SEC approval of the amendment of the articles of incorporation to increase the number of Directors from 9 to 15 and the reorganization of the Board committees following the effectivity of election of the new Directors.*

*** Subject to the reorganization of the Board committees following the effectivity of election of the new directors.*

governance framework and the performance evaluation of the Board and its committees, as well as top management, to ensure that management's performance is at par with the standards set by the Board. The committee advises the Board on the establishment of a formal and transparent procedure for developing policy on remuneration of directors and senior management that is aligned with the long term interests of the Company, ensuring that compensation is consistent with the Company's culture and strategy, as well as the business environment in which it operates. It likewise reviews and oversees the implementation of policies relating to business interest disclosures and conflict of interest, appointments and promotions of officers, and succession planning. Further, the committee determines the nomination and election process for the Company's Board of Directors, and screens and shortlists candidates to the Board in accordance with the qualifications and disqualifications for directors defined in the Company's by-laws, Manual on Corporate Governance, applicable laws and regulations.

The Corporate Governance Committee is composed of four[6] directors of the Company, three of whom are Independent Directors. The Corporate Governance Committee chairperson is Ms. Minita V. Chico-Nazario (Independent). The members of the committee are Messrs. Carmelo L. Santiago (Independent) Ricardo C. Marquez (Independent), and Menardo R. Jimenez[7]. Atty. Virgilio S. Jacinto will serve as an advisor to the committee.

Executive Compensation Table

Compensation

The aggregate compensation paid or incurred during the last two fiscal years, as well as those estimated to be paid in the ensuing fiscal year, to the Company's President and senior executive officers are as follows:

Name	Year	Salary	Bonus	Others	Total
Total Compensation of the President and Senior Executive Officers	(amounts in millions of ₱)				
	2018(1) (estimated)	100.5	68.6	8.2	177.3
	2017(2)	70.3	37.6	3.7	111.6
	2016(3)	68.0	27.6	3.7	99.3
All other officers and directors as a group unnamed	2018 (estimated)	640.6	209.8	169.3	1,019.7
	2017	185.2	95.0	49.2	329.4
	2016	170.3	71.0	46.3	287.6
TOTAL	2018 (estimated)	741.1	278.4	177.5	1,197.0
	2017	255.5	132.6	52.9	441.0
	2016	238.3	98.6	50.0	386.9

Note:
(1) The President and senior executive officers of the Company for 2018 are as follows: Eduardo M. Cojuangco Jr., Ramon S. Ang, Roberto N. Huang, Francisco S. Alejo III, and Emmanuel B. Macalalag.

(2) The President and senior executive officers of the Company for 2017 are as follows: Francisco S. Alejo III, Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Oscar R. Sañez.

(3) The President and senior executive officers of the Company for 2016 are as follows: Francisco S. Alejo III, Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Ma. Soledad E. Olives. Ms. Olives retired from the Company effective July 31, 2016 as previously disclosed.

Article II, Section 5 of the by-laws of the Company provides that the members of the Board of Directors shall each be entitled to a director's fee in the amount to be fixed by the stockholders at a regular or special meeting duly called for that purpose.

In 2017, each director received a per diem of ₱10,000.00 per attendance at Board and Board committee meetings of the Company.

[6] Subject to Philippine SEC approval of the amendment of the articles of incorporation to increase the number of Directors from 9 to 15 and the reorganization of the Board committees following the effectivity of election of the new Directors.
[7] Subject to the reorganization of the Board committees following the effectivity of election of the new directors.

In the year 2017, the Company paid a total of ₱1,090,000 in per diem allowances to the Board of Directors, as follows:

Executive Director	₱ 80,000
Non-executive Directors (other than Independent Directors)	500,000
Independent Directors	510,000
TOTAL	**₱1,090,000**

There are no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, by the Company for services rendered during the last fiscal year, and the ensuing fiscal year.

There are neither compensatory plans nor arrangements with respect to an executive officer that results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

There are no outstanding warrants or options held by the Company's President, named executive officers and all directors and officers as a group.

Involvement in Certain Legal Proceedings of Directors and Executive Officers

None of the directors, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five years up to the date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors or executive officers.

PRINCIPAL AND SELLING SHAREHOLDER

Principal Shareholder

The following table sets out our principal shareholder, its number of Shares and corresponding percentage ownership as of the date of this Prospectus:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of Total Outstanding Shares
Common	San Miguel Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550	San Miguel Corporation	Filipino	5,665,341,800	95.87%

Selling Shareholder

The table below sets forth, for the Selling Shareholder, the number of common shares and percentage of outstanding shares held before the Offer, the maximum number of common shares to be sold in the Offer and the percentage of outstanding Shares owned immediately after the Offer, assuming the full exercise of the Over-allotment Option.

Selling Shareholder	Shares Held Before the Offer	% of Shares Outstanding before the Offer	Maximum Number of Shares to be Sold in the Offer	% of Shares Outstanding following the Offer
San Miguel Corporation	5,665,341,800	95.87%	461,081,680	88.07%

Voting Trust Holders of 5.0% or More

None of SMFB's directors and officers own 5% or more of the outstanding capital stock of SMFB. No person holds 5% or more of SMFB's outstanding shares under a voting trust agreement.

Changes in Control

There is no provision in SMFB's articles of incorporation and by-laws which would delay, deter or prevent a change in control. There are no existing arrangements to which SMFB is a party or which are otherwise known to SMFB that may result in a change in control of SMFB.

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

The following table sets out our shareholders of more than 5% of our voting securities and their respective shareholdings and corresponding percentage ownership as of the date of this Prospectus.

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of Total Outstanding Shares
Common	San Miguel Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550	San Miguel Corporation	Filipino	5,665,341,800	95.87%

Security Ownership of Directors and Officers

The following comprise our Board of Directors as of the date of this Prospectus. Under the Philippine Corporation Code and SMFB's by-laws, to qualify as a member of the Board of Directors, each director is required to hold at least one share in his name in the books of the corporation.

Title of Class	Name of Record Owner	Number of Shares	Amount (₱)	Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Eduardo M. Cojuangco, Jr.	10	10.00	Direct	Filipino	0.00%
Common	Ramon S. Ang	10	10.00	Direct	Filipino	0.00%
Common	Francisco S. Alejo III	10	10.00	Direct	Filipino	0.00%
		230,000	230,000.00	Beneficial		
Preferred		10,000	100,000.00	Beneficial		
Common	Menardo R. Jimenez	10	10.00	Direct	Filipino	0.00%
Common	Ma. Romela M. Bengzon	10	10.00	Direct	Filipino	0.00%
Common	Carmelo L. Santiago	10	10.00	Direct	Filipino	0.00%
Common	Minita V. Chico-Nazario	10	10.00	Direct	Filipino	0.00%
Common	Ricardo C. Marquez	10	10.00	Direct	Filipino	0.00%
Common	Cirilo P. Noel	10	10.00	Direct	Filipino	0.00%
Common	Aurora T. Calderon*	10	10.00	Direct	Filipino	0.00%
Common	Ferdinand K. Constantino*	10	10.00	Direct	Filipino	0.00%
Common	Roberto N. Huang*	10	10.00	Direct	Filipino	0.00%
Common	Emmanuel B. Macalalag*	10	10.00	Direct	Filipino	0.00%

** Subject to Philippine SEC approval of the amendment of the articles of incorporation to increase the number of directors from 9 to 15.*

Dilution of Principal Shareholders

The chart below shows the dilution of our principal shareholders as a result of the Offer.

Name of Shareholder	Number of Common Shares Held before the Offer	Percentage Total of Shareholding before the Offer	Number of Common Shares held after the Firm Offer	Percentage Total of Shareholding after the Firm Offer	Number of Common Shares Held Assuming Full Exercise of the Over-allotment Option	Percentage Total of Shareholding Assuming Full Exercise of the Over-allotment Option
San Miguel Corporation	5,665,341,800	95.87%	5,264,401,210	89.09%	5,204,260,120	88.07%

Voting Trust Holders of 5% or more

None of SMFB's directors and officers own 5% or more of the outstanding capital stock of SMFB. No person holds 5% or more of SMFB's outstanding shares under a voting trust agreement.

Recent Issuances of Securities Constituting Exempt Transactions by the Company

On June 29, 2018, SMFB issued 4,242,549,130 new common shares to SMC in exchange for all of its 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI. For further discussion on the issuance, please refer to "*Business—Corporate Structure and the SMFB Consolidation*".

Changes in Control

There is no provision in SMFB's articles of incorporation and by-laws which would delay, deter or prevent a change in control. There are no existing arrangements to which SMFB is a party or which are otherwise known to SMFB that may result in a change in control of SMFB.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, we enter into various transactions with related parties and affiliates, principally consisting of purchases of products and services, and sales of products. Our policy with respect to related party transactions is to ensure that these transactions are entered on an arm's length basis and entered into on terms comparable to those available from or to unrelated third parties, as the case may be. The Company also complies with the board and shareholder voting mechanisms provided under the Philippine Corporation Code and the relevant regulations of the Philippine SEC for related party transactions. In the case of interlocking directors, directors who are interested in the transactions to be approved abstain from voting thereon. See note 30 to our Audited Combined Financial Statements and note 14 to our June 30, 2018 Unaudited Consolidated Interim Financial Statements included elsewhere in this Prospectus for more information.

A summary of our key transactions with related parties as of for the year ended December 31, 2017 and as of and for the six- month period ended June 30, 2018 is set out below.

Transactions	As of and the years-ended December 31, 2017		As of and for the six month ended June 30, 2018	
	(in millions)			
	₱	US$(1)	₱	US$
Revenues from Related Parties	927	17	444	8
Purchases from Related Parties	22,443	419	13,178	246
Amounts Owed by Related Parties	1,398	26	1,289	24
Amounts Owed to Related Parties	9,788	183	8,897	166

(1) *Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of US$1.00=₱53.50, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 29, 2018 (the last date in June 2018 that such rate was published).*

Revenues and Purchases from Related Parties

Revenues and purchases from related parties primarily pertain to goods and services sold to and/or purchased from the same in the ordinary course of doing business. Transactions with related parties are made at normal market prices and terms.

The Beer and NAB Division purchases products and services from and sells products to related parties at normal market prices and terms. For the year ending December 2017, its transactions with related parties amounted to ₱315 million in revenues and ₱10,215 million in purchases, and for the six-month period ended June 30, 2018 to ₱144 million in revenues and ₱6,748 million in purchases.

The Spirits Division, in the normal course of business, transacted with related parties for the purchase of containers and other packaging materials, and for the sale of liquor and by-products. For the year ended December 2017, its transactions with related parties amounted to ₱234 million in revenues and ₱4,055 million in purchases, and for the six-month period ended June 30, 2018 to ₱209 million revenues and ₱2,468 million in purchases. The Spirits Division also paid to SMC the amount of ₱180 million for the year ending December 2017 and ₱90 million for the six-month period ended June 30, 2018, representing management fees. The Spirits Division, through its subsidiary, East Pacific Star Bottlers Phils lnc., had various lease agreements with related parties for the lease of parcels of land located in Liga-o City, Albay and Cauayan, lsabela for a period ranging from 5 to 10 years and renewable upon mutual agreement of both parties. Rental fees are payable monthly and subject to 5% escalation every year.

Similarly, for the year ended December 31, 2017, the Food Division's revenues and purchases from SMC and its subsidiaries and affiliates amounted to ₱204 million and ₱7,744 million, respectively. These amounts pertain to the sale of goods and billing of services sold to and/or purchased from the related parties in the ordinary course of doing business which include logistics, management, service and professional fees. For the six-month period ended June 30, 2018, revenues and purchases amounted to ₱8 million and ₱3,751 million, respectively. SMC Shipping and Lighterage Corp. accounts for 51.4% and 55.7% of the total purchase for the year ended December 31, 2017 and for the six-month period ended June 30, 2018, respectively.

Transactions with Food Division's joint venture partner Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly SCCPL, pertain to procurement of goods which amounted to ₱429 million in purchases for the year ended December 31, 2017 and ₱211 million for the six-month period ended June 30, 2018. Transactions with joint venture partner Hormel Netherlands B.V. pertain to income from the sale of Hormel products in the Philippines which amounted to ₱174 million of revenues for the year ended December 31, 2017 and ₱83 million for the six-month period ended June 30, 2018.

Our businesses regularly enter into related party transactions with SMYPC (an affiliate of SMFB) and its subsidiaries and affiliates (the "**Packaging Group**") for the purchase of packaging products such as glass bottles, caps, metal crowns, cans, plastic pallets and crates. These purchases are generally covered by various purchase orders setting out the price, order quantity and delivery schedules. The Packaging Group, with its business partners, is one of the leading suppliers of packaging materials in the Philippines and exports packaging materials to several countries.

Loans to and From Related Parties

Amounts owed by related parties consists of current and noncurrent receivables, deposits and share in expenses. Amounts owed to related parties consist of trade and non-trade payables, other noncurrent liabilities and amounts owed to Bank of Commerce, a related company of SMC. Amounts owed by and owed to related parties are collectible and 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 Food and Spirits Divisions have obtained interest-bearing loans payable to Bank of Commerce which amounted to a total of ₱4,530 million and ₱3,872 million as of December 31, 2017 and as of June 30, 2018, respectively. In addition, Thai San Miguel Liquor Company Limited has executed various promissory notes in favor of GSMI amounting to Thai Baht THB 475 million (₱688 million) in aggregate for general corporate purposes. The principal sum is due and payable in full on demand of GSMI and stipulated interest is payable every three months.

Other Transactions

The compensation of key management personnel includes short-term employee benefits amounting to ₱427 million for the year ended December 31, 2017. Retirement costs of these key management personnel amounted to ₱50 million for the year ended December 31, 2017.

Prior to this Offering, SMC approved and implemented the SMFB Consolidation to rationalize its businesses and corporate organization. As part of the SMFB Consolidation, SMC transferred all of its 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI (collectively, the "**Exchange Shares**") to SMFB. In consideration for the Exchange Shares, SMFB issued 4,242,549,130 new common shares to SMC (the "**New Shares**", the transfer of the Exchange Shares and the issue of the New Shares being the "**Share Swap**"). The Board of Directors of SMFB approved the Share Swap, after approval and endorsement by SMFB's Related Party Transactions Committee and Audit Committee. See "*Business—Corporate Structure and SMFB Consolidation*."

On August 8, 2018, upon the endorsement of the RPT Committee, our Board of Directors approved the assignment by SMFB of its entire shareholding in its non-operating 100%-owned subsidiary, RealSnacks Mfg. Corp., to San Miguel Foods, Inc., a 99.99%-owned subsidiary of SMFB, for the consideration of Two Hundred Fifty Thousand Pesos (₱250,000.00). RealSnacks Mfg. Corp. will remain a subsidiary consolidated into SMFB, through SMFI, as a result of the transaction. This transaction was undertaken as part of the SMFB Consolidation.

Related Party Transactions Policy

Our Board of Directors has established and approved policies governing related party transactions to avoid conflicts of interest and to manage these transactions. Pursuant to our Manual on Corporate Governance, our Board of Directors created a Related Party Transactions Committee (the "**RPT Committee**"), which is responsible for reviewing all material related party transactions entered into by SMFB. See "*Board of Directors and Senior Management—Committees of the Board of Directors—Related Party Transactions Committee*."

On March 14, 2018, upon the endorsement of the RPT Committee, the Board of Directors of SMFB approved the related party transactions policy of the Company. Under the related party transactions policy, the RPT committee reviews proposed material related party transactions in accordance with guidelines setting thresholds and procedures to ensure that the proposed transaction is entered into on arm's-length terms, the terms are fair, and that these will inure to the best interest of the Company and its subsidiaries or affiliates and their shareholders, including minority shareholders. If the related party transaction passes the review of the RPT committee, the proposed transaction is endorsed to the Board of Directors for approval. Any member of the Board who is an interested party in the transaction must disclose such interest and cannot participate in voting thereon. The related party transactions policy also sets guidelines to avoid conflicts of interest and to protect the rights of minority shareholders. In this regard, related party transactions that require shareholders' approval in accordance with law and regulations are submitted to all shareholders, including minority shareholders, for approval. Related party transactions are disclosed in our financial statements, annual reports and other applicable filings pursuant to the relevant rules and issuances of the Philippine SEC, the PSE and other relevant regulatory bodies. The full text of SMFB's policy on related party transactions is available at its corporate website at http://www.smfb.com.ph/rpt.pdf.

DESCRIPTION OF THE SHARES

Set forth below is information relating to the Offer Shares. This description is only a summary and is qualified by reference to Philippine law and SMFB's amended articles of incorporation and by-laws, as may be further amended from time to time.

Share Capital Information

SMFB's authorized capital stock is ₱12,000,000,000.00 divided into 11,600,000,000 common shares with a par value of ₱1.00 per share, and 40,000,000 preferred shares with a par value of ₱10.00 per share. As of June 30, 2018, SMFB had 5,909,220,090 issued and outstanding common shares and 15,000,000 issued and outstanding Series 2 Preferred Shares (the "**Preferred Shares**"). The Preferred Shares were issued and listed on the PSE on March 12, 2015.

After completion of the Offer, the total issued and outstanding common shares shall remain at 5,909,220,090.

The common shares and Series 2 Preferred Shares are listed and traded on the Main Board of the PSE under the trading symbol "**FB**" and "**FBP2**" respectively. As of October 15, 2018, the share price of FB is ₱90.50 and FBP2 was ₱1,000.00.

Objects and Purposes

Our primary purpose under the amended articles of incorporation is "to can, preserve, prepare, process, manufacture, pack, repack, market, distribute, ship and sell meats, fish, fruits, vegetables, cereals, and their by-products; to buy or otherwise acquire, can, preserve, process, manufacture, market, prepare for market, sell, deal in, deal with, import and export food and food products of every class and description, fresh, canned or preserved or otherwise, and all food and other preparations; to manufacture fermented and malt-based beverages, particularly beer of all kinds and classes, beer yeast (cerevicina), malt extract and carbonic gas, as well as to distill, rectify, manufacture and bottle wines, spirits, essences, whiskeys, gins, liquors and other alcoholic drinks, alcohol and alcohol-based, alcohol related or allied products, water and water-based beverages, and other non-alcoholic beverages, of all kinds and classes, prepare, purchase and sell malt, barley and other cereals, flour, yeast and other products which might be used in connection with the said business or manufacture; to buy, import, sell, export, and trade in such food and beverage products, including raw materials therefor; to own, acquire, pledge, buy, sell, convey, assign and transfer meats, fish, fruits, cereals, grains, foods, and vegetables and their by-products, alcoholic and non-alcoholic beverages, goods and merchandise, real and personal property of every kind or description, which may be incidental in carrying out the business of the corporation."

Under Philippine law, a corporation may also invest its funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized when approved by a majority of the board of directors of such corporation and ratified by the shareholders representing at least two-thirds of the outstanding capital shares, at a shareholders' meeting duly called for the purpose. However, where the investment by the corporation is reasonably necessary to accomplish its primary purpose, the approval of the shareholders shall not be necessary.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its articles of incorporation and by-laws. Under Philippine law, the shares of a corporation may either be with or without a par value. All of the Shares currently issued have a par value of ₱1.00 per share. In the case of par value shares, where a corporation issues shares at a price above par, whether for cash or otherwise, the amount by which the subscription price exceeds the par value is credited to an account designated as additional paid-in capital or paid-in surplus.

A corporation may acquire its own shares for a legitimate corporate purpose as long as it has unrestricted retained earnings or surplus profits sufficient to pay for the shares to be acquired, such as in the following instances: (i) elimination of fractional shares arising out of stock dividends, (ii) the purchase of shares of dissenting shareholders exercising their appraisal right and (iii) the collection or compromise of an indebtedness arising out of an unpaid subscription in a delinquency sale or to purchase delinquent shares during such sale. Upon repurchase of its own shares, the shares become treasury shares, which may be resold at a reasonable price fixed by the board of directors.

The Board is authorized to issue shares from the treasury from time to time.

Foreign Ownership Limits

We are subject to foreign ownership restrictions on account of our ownership of land. Consequently, foreign ownership in SMFB is limited to a maximum of 40% of both the total issued and outstanding capital stock entitled to vote and the total number of issued and outstanding capital stock, whether or not entitled to vote.

Rights Relating to Common Shares

Voting Rights

The Shares have full voting rights. Each Share entitles the holder to one vote. Our directors are elected by the shareholders at the annual shareholders' meeting. Cumulative voting is allowed whereby a shareholder may cumulate his votes by giving one candidate as many votes as the number of directors to be elected multiplied by the number of his shares. Under Philippine law, voting rights cannot be exercised with respect to shares declared delinquent, treasury shares, or if the shareholder has elected to exercise his appraisal rights.

Preferred shares issued by SMFB have no voting rights except as specifically provided by the Philippine Corporation Code. Thus, holders of the Preferred Shares are not eligible, for example, to vote for or elect the Company's directors or to vote for or against the issuance of a stock dividend. Holders of Preferred Shares, however, may vote on matters which the Philippine Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. These acts, which require the approval of shareholders representing at least two-thirds of our issued and outstanding capital stock in a meeting duly called for the purpose, are as follows: (i) amendment of the articles of incorporation of the Company, (ii) adoption and amendment of by-laws, (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the property of the Company, (iv) incurring, creating or increasing bonded indebtedness, (v) increase or decrease of capital stock, (vi) merger or consolidation, (vii) investment of corporate funds in another corporation or business in accordance with the Philippine Corporation Code, and (viii) dissolution.

Dividend Rights

The Shares shall have full dividend rights. Dividends are payable to all shareholders on the basis of outstanding shares held by them, each share being entitled to the same unit of dividend as any other shares. Dividends are payable to shareholders whose names are recorded in the stock and transfer book as of the record date fixed by our directors. The PDTC has an established mechanism for distribution of dividends to beneficial owners of the shares which are traded through the PSE and lodged with the PDTC as required for scripless trading.

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. The Company may pay dividends in cash, property or by the issuance of shares. Dividends may be declared by the Board of Directors except for stock dividends which may only be declared and paid with the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

The Philippine Corporation Code generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

Philippine corporations whose securities are listed on any stock exchange are required to maintain and distribute an equitable balance of cash and stock dividends, consistent with the needs of shareholders and the demands for growth or expansion of the business.

See "*Dividends and Dividend Policy*."

Pre-emptive Rights

The Philippine Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation entitling such shareholders to subscribe to all issues or other dispositions of equity-related securities by the corporation in proportion to their respective shareholdings, regardless of whether the equity-related securities proposed to be issued or otherwise disposed of are identical to the shares held. A Philippine corporation may, however, provide for the denial of these pre-emptive rights in its articles of incorporation. Likewise, shareholders who are entitled to such pre-emptive rights may waive the same through a written instrument to that effect. Our shareholders representing at least two-thirds of the Company's issued and outstanding capital stock had approved the amendment of our articles of incorporation to deny shareholders the pre-emptive right to subscribe to all classes of shares that we may issue in the future.

Derivative Rights

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

Appraisal Rights

Under the Philippine Corporation Code, a shareholder has the right to dissent and demand payment of the fair value of his shares in the following instances: (i) an amendment of the articles of incorporation which has the effect of changing or restricting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence; (ii) the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the corporate assets; (iii) in a merger or consolidation; and (iv) and investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

The payment to the dissenting stockholder of the fair value of his shares will only be available if the corporation has unrestricted retained earnings to cover such purchase. From the time the shareholder makes a demand for payment until either the abandonment of the contested corporate action involved or the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the shares.

Right of Inspection

A shareholder has the right to inspect the records of all business transactions of the corporation and the minutes of any meeting of the Board of Directors and shareholders at reasonable hours on business days and may demand a copy of excerpts from such records or minutes at his or her expense. However, the corporation may refuse such inspection if the shareholder demanding to examine or copy the corporation's records has improperly used any information secured through any prior examination, or was not acting in good faith or for a legitimate purpose in making his demand.

Right to Financial Statements

A shareholder has a right to be furnished with the most recent financial statement of a Philippine corporation, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the results of its operations. At the meeting of shareholders, the Board of Directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements duly signed and certified by an independent certified public accountant.

Provisions that Would Delay, Deter or Prevent a Change in Control

The Company has no shareholder agreements, voting trust agreements, confidentiality agreements and such other agreements that may impact the control, ownership and strategic direction of the Company.

Certain Terms of the Preferred Shares

The Preferred Shares have no voting rights except as specifically provided by the Philippine Corporation Code. The declaration and payment of cash dividends on each dividend payment date is subject to the sole and absolute discretion of the Board. As and if dividends are declared by the Board, cash dividends shall be at a fixed rate of 5.6569% calculated by reference to the Offer Price of ₱1,000.00 per share. No dividend shall be declared and paid on the common shares unless cash dividends shall have been declared and paid to all holders of the preferred shares. Dividends on the Preferred Shares are cumulative, but holders are not entitled to participate in any other or further dividends beyond the dividends specifically payable on the Preferred Shares.

The Preferred Shares are redeemable in whole, but not in part, in cash, as and if declared by the Board, on the third anniversary of the listing date or on the last day of any dividend period thereon, at the price equal to the issue price plus any accumulated and unpaid cash dividends. SMFB may also redeem the Preferred Shares in whole but not in part, at any time prior to the end of the fifth year from the issue date if an Accounting Event, Tax Event, or a Change of Control has occurred and is continuing, in each case at the redemption price.

An "Accounting Event" occurs if an opinion of a recognized accountancy firm authorized to perform accounting services in the Republic of the Philippines has been delivered to the Company stating that the preferred shares may no longer be recorded as equity in the audited consolidated financial statements of the Company prepared in accordance with PFRS, or such other accounting standards which succeeds PFRS as adopted by the Company for the preparation of its audited consolidated financial statements for the relevant financial year, and such event cannot be avoided by use of reasonable measures available to the Company. A "Tax Event" occurs if dividend payments become subject to any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company. A "Change of Control" occurs if any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly a controlling participation in the Company.

In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Preferred Shares enjoy preference in the payment, in full or, if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred shares, of the issue price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of common shares.

Board of Directors

Unless otherwise provided by law, the corporate powers of the Company are exercised, its business is conducted, and its property is controlled, by the Board of Directors. Pursuant to our articles of incorporation, as amended, the Company shall have nine directors. Three of such directors are independent directors within the meaning set forth in Section 38 of the SRC. On September 12, 2018, the proposal to increase the number of the Company's directors to 15, as previously approved by the Board of Directors, was approved by the shareholders. This will require an amendment to the Company's articles of incorporation and the Philippine SEC's approval.

Our directors shall be elected during each regular meeting of shareholders, at which shareholders representing at least a majority of the issued and outstanding capital shares of the Company are present, either in person or by proxy. If for any cause the annual meeting of the stockholders shall not be held at the time fixed in the by-laws and the election of directors shall not be had, the directors then in office shall hold over until a new election. Such new election may be held in any annual meeting or at a special meeting of the stockholders called for the purpose.

Directors may only act collectively; individual directors have no power as such. To protect minority shareholders against actions of controlling shareholders, at least two-thirds of the number of directors as fixed in the articles of incorporation of the Company will constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the Directors present at a meeting at which there is a quorum will be valid as a corporate act. Moreover, no corporate policies, decisions or actions will be taken by the Board of Directors or any committee of the Board of Directors without the vote of at least two-thirds of the entire membership of the Board or committee on any matters not in furtherance currently carried on by the Company. Any vacancy created by the death, resignation or removal of a director prior to expiration of such director's term shall be filled by a vote of at least a majority of the remaining directors, if still constituting a quorum, Otherwise, the vacancy must be filled by the shareholders at a meeting duly called for the purpose. Any director elected in this manner by our Board of Directors shall serve only for the unexpired term of the director whom such director replaces and until his successor is duly elected and qualified.

On July 5, 2018, the Board of Directors approved the amendment to the articles of incorporation to increase the number of directors from nine to 15. On August 8, 2018, the Board of Directors approved the nomination of Ms. Aurora T. Calderon, Mr. Ferdinand K. Constantino, Mr. Roberto N. Huang, and Mr. Emmanuel B. Macalalag to occupy four out of the six new Board seats*. As of the date of this Offering Circular, the amendment to the articles of incorporation and the election of the new directors are subject to the approval by the Philippine SEC.

* *Mr. Cirilo P. Noel was initially included as one of the five nominees for directors who will occupy five of the six Board seats to be created from the amendment of the articles of incorporation. Subsequently, Mr. Cirilo P. Noel was elected as an Independent Director to replace Mr. Rolando L. Macasaet who tendered his resignation on September 12, 2018, and to serve for the latter's unexpired term.*

Shareholders' Meetings

Annual or Regular Shareholders' Meetings

All Philippine corporations are required to hold an annual meeting of shareholders for corporate purposes including the election of directors. The by-laws of the Company provide for annual meetings on the second Friday of May of each year to be held in Metro Manila and at such hour as specified in the notice. On September 12, 2018, the proposal to move the date of the annual shareholders' meeting to the first Wednesday of June each year, as previously approved by the Board of Directors, was approved by the shareholders. This will require the amendment of the Company's by-laws. As such, the proposed amendment is subject to the Philippine SEC's approval.

Special Shareholders' Meeting

Special meetings of shareholders, for any purpose or purposes, may at any time be called by either the President or a majority of our Board, whenever he or they shall deem it necessary, or upon the written request of stockholders registered as the owners of one-third of the Company's outstanding capital stock allowed to vote.

Notice of Shareholders' Meeting

Whenever shareholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and time of the meeting, and the purpose or purposes for which the meeting is called not less than 15 trading days prior to the date of such meeting. No notice of meeting need be published in any newspaper, except when necessary to comply with the special requirements of the Philippine Corporation Code and the SRC.

Notices of the time, date and place of the holding of a shareholders' meeting and notice of the time, date and place of the validation of proxies shall be given either by posting the same, addressed to each shareholder of record entitled to vote, at the address left by such shareholder with the Secretary of the Company or at his last known post-office address, or by delivering the same to him or her in person at least 15 days before the date set for such meeting.

Shareholders entitled to vote may, by written consent, waive notice of the time, place and purpose of any meeting of shareholders and any action taken at such meeting pursuant to such waiver shall be valid and binding. When the meeting of the shareholders is adjourned to another time or place, notice of the adjourned meeting need not be provided so long as the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

Quorum

A quorum at any meeting of the shareholders shall consist of a majority of the outstanding voting stock of the corporation represented in person or by proxy, and a majority of such quorum shall decide any question that may come before the meeting, save and except those several matters in which the laws of the Philippines require the affirmative vote of a greater proportion.

Voting

The shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy duly appointed as herein provided. The vote for the election of Directors shall be by ballot if requested by any voting shareholder. Otherwise, voting may be by *viva voce*.

Fixing Record Dates

Under existing Philippine SEC rules, cash dividends declared by corporations whose shares are listed on the PSE shall have a record date which shall not be less than ten and not more than 30 days from the date of declaration of cash dividends. With respect to stock dividends, the record date shall not be less than ten nor more than 30 days from the date of shareholder approval. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC and shall be indicated in the Philippine SEC order which shall not be less than ten days nor more than 30 days after all clearances and approvals by the Philippine SEC shall have been secured. Regardless of the kind of dividends, the record date set shall not be less than 10 trading days from receipt by the PSE of the notice of declaration of the dividend. In case no record date is specified for the cash and stock dividend declaration, then the same shall be deemed fixed at 15 days from such declaration.

Proxies

Shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy duly given in writing and duly presented to and received by the Corporate Secretary for inspection and recording at or prior to the opening of the meeting. No proxy bearing the signature that is not legally acknowledged, if unrecognized by the Corporate Secretary, shall be honored at the meetings. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Corporate Secretary. No proxy shall be valid and effective for a period longer than five years at any one time. No member of the PSE and no broker/dealer shall give any proxy, consent or authorization, in respect of any securities carried for the account of a customer to a person other than the customer, without the express written authorization of such customer. The proxy executed by the broker shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.

There shall be a presumption of regularity in the execution of proxies and proxies shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge. Proxies should comply with the relevant provisions of the Philippine Corporation Code, the SRC, the Implementing Rules and Regulations of the SRC (as amended), and SEC Memorandum Circular No. 5 (series of 1996) issued by the Philippine SEC.

Issues of Shares

Subject to otherwise applicable limitations, the Company may issue additional Shares to any person for consideration deemed fair by the Board, provided that such consideration shall not be less than the par value of the issued Shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent Shares) has been paid and proof of payment of the applicable taxes shall have been submitted to the Company's Corporate Secretary. Under the PSE Rules, only fully-paid shares may be listed on the PSE.

Transfer of Common Shares

All transfer of shares on the PSE shall be effected by means of a book-entry system. Under this system of trading and settlement, a registered shareholder transfers legal title over the shares to such nominee, but retains beneficial ownership over the shares. A shareholder transfers legal title by surrendering the stock certificate representing his shares to participants of the PDTC System (i.e., brokers and custodian banks) that, in turn, lodge the same with the PCD Nominee. A shareholder may request his shares to be uplifted from the PDTC, in which case a certificate of stock is issued to the shareholder and the shares are registered in the shareholder's name. See "*The Philippine Stock Market*."

Philippine law does not require transfers of our Shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See "*Philippine Taxation*." All transfers of Shares on the PSE must be effected through a licensed stockbroker in the Philippines.

Share Register

Our share register is maintained at the principal office of our share transfer agent, SMC Stock Transfer Service Corporation at 2nd Floor, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

Share Certificates

Certificates representing the Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional Shares. Shareholders may request our stock transfer agent to split their certificates. Shares may also be lodged and maintained under the book-entry system of the PDTC. See "*The Philippine Stock Market*."

Mandatory Tender Offer

In general, under the SRC and its implementing rules and regulations, it is mandatory for any person or group of persons acting in concert to make a tender offer to all the shareholders of the target corporation before the intended acquisition, directly or indirectly, of:

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company in one or more transactions within a period of 12 months;

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company directly from one or more stockholders; or
- equity which would result in ownership of over 50% of the outstanding equity securities of a public company.

Under the first instance, when the securities tendered pursuant to such an offer exceed the number of shares that the acquiring person or group of persons is willing to acquire, the securities shall be purchased from each tendering shareholder on a pro rata basis according to the number of securities tendered by each security holder. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed to both the selling shareholders with whom the acquirer may have been in private negotiations with and the minority shareholders.

Under the second instance, the tender offer shall be made for all the outstanding voting shares. The shares pursuant to the private transaction with the stockholders shall not be completed prior to the closing and completion of the tender offer.

Under the third instance, the acquirer shall be required to make a tender offer for all the outstanding equity securities to all remaining stockholders of the company at a price supported by a fairness opinion provided by an independent financial adviser or equivalent third party. The acquirer shall be required to accept all securities tendered.

No mandatory tender is required in:

- purchases of shares from unissued capital shares unless it will result in a 50% or more ownership of shares by the purchaser;
- purchases from an increase in the authorized capital shares of the target company;
- purchases in connection with a foreclosure proceeding involving a duly constituted pledge or security where the acquisition is made by a debtor or creditor;
- purchases in connection with a privatization undertaken by the government of the Philippines;
- purchases in connection with corporate rehabilitation under court supervision;
- purchases through an open market at the prevailing market price; or
- purchases resulting from a merger or consolidation.

Fundamental Matters

The Philippine Corporation Code provides that the following acts of the corporation should have the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the corporation: (i) amendment of the articles of incorporation; (ii) removal of directors; (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the assets of the corporation; (iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized; (v) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws; (vi) merger or consolidation; (vii) an increase or decrease in capital stock; (viii) dissolution; (ix) extension or shortening of the corporate term; (x) creation or increase of bonded indebtedness; (xi) declaration of stock dividends; (xii) management contracts with related parties; and (xiii) ratification of contracts between the corporation and a director or officer.

The approval of shareholders holding a majority of the outstanding capital shares of a Philippine corporation, including non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

Accounting and Auditing Requirements

Philippine stock corporations are required to file copies of their annual consolidated financial statements with the Philippine SEC. Corporations whose shares are listed on the PSE are also required to file quarterly consolidated financial statements for the first three quarters with the Philippine SEC and the PSE. The Board of Directors is required to present to shareholders at every annual meeting a financial report (including the financial statements) of the operations of the Company for the preceding year.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Joint Global Coordinators, Joint Bookrunners Local Lead Underwriters and Financial Adviser, or any of their respective subsidiaries, affiliates or advisors in connection with the offer and sale of the Offer Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE had an authorized capital stock of ₱120 million, of which 61.2 million shares were subscribed and fully paid-up as of June 30, 2018. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President of the PSE.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds ("**ETF**") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology (EDGe), a new disclosure system co-developed with the Korea Exchange, went live. The EDGe system provided a dedicated portal for listed company disclosures and also offered a free-to download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ's X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, the Exchange received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices

The table below sets out movements in the composite index as of the last business day of each calendar year from 1995 to 2017, and through August 31, 2018, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	PSEi Level	Number of Listed Companies	Market Capitalization (in ₱ billion)	Value Turnover (in ₱ billion)
2006	2,982.54	239	7,173.19	572.63
2007	3,621.60	244	7,976.84	1,338.25
2008	1,872.85	246	4,072.16	763.90
2009	3,052.68	248	6,032.22	994.15
2010	4,201.14	253	8,866.11	1,207.38
2011	4,371.96	253	8,696.96	1,422.59
2012	5,812.73	254	10,930.09	1,771.71
2013	5,889.83	257	11,931.29	2,546.18
2014	7,230.57	263	14,251.72	2,130.12
2015	6,952.08	265	13,465.57	2,151.41
2016	6,840.64	265	14,438.77	1,929.50
2017	8,558.42	267	17,583.13	1,958.36
2018	7,855.71	268	17,175.85	1,159.59

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 p.m. and ends at 3:30 p.m. for the afternoon session. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.

- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the nine existing Settlement Banks of SCCP which are BDO Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank & Trust Company, Deutsche Bank, Union Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited, Maybank Philippines, Inc., Asia United Bank, and China Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.

• On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgement of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

Amended Rule on Minimum Public Ownership

Under the PSE Amended Rule on Minimum Public Ownership ("**MPO**"), listed companies are required, at all times, to maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' total issued and outstanding shares (i.e., exclusive of treasury shares), or at such percentage that may be prescribed by the PSE. For purposes of determining compliance with the MPO, shares held by the following are generally considered "held by the public": (i) individuals (for as long as the shares held are not of a significant size (i.e., less than 10.0%) and are non-strategic in nature; (ii) trading participants (for as long as the shares held are non-strategic in nature); (iii) investment and mutual funds; (iv) pension funds; (v) PCD nominees if this account constitutes a number of shareholders, none of which has significant holdings (provided that if an owner of shares under the PCD Nominee has a shareholding that is 10% or more of the total issued and outstanding shares, then this shareholder is considered a principal stockholder); and (vi) social security funds.

Listed companies which become non-compliant with the MPO on or after January 1, 2013 will be suspended from trading for a period of not more than six (6) months and will automatically be delisted if it remains non-compliant with the MPO after the lapse of the suspension period. Suspended or delisted shares will not be traded on the exchange. In addition, sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax.

In accordance with the SEC Memorandum Circular No. 13 Series of 2017 issued on December 1, 2017, the MPO requirement on initial public offerings is increased from 10.0% to 20.0%. For existing publicly listed companies, the existing rules and/or guidelines of an exchange on minimum public float duly approved by the SEC still apply. The PSE rule on MPO requires that listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' issued and outstanding shares, exclusive of any treasury shares, or as such percentage that may be prescribed by the PSE. As of date, the SEC is looking at increasing the MPO requirement of existing listed companies to at least 15.0%, on or before the end of 2018, and then to at least 20.0% on or before the end of 2020. Such proposed rules on MPO are yet to be issued by SEC for comments by the public.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Offer Shares. The statements made regarding taxation in the Philippines are based on the laws in force at the date of this Prospectus and are subject to any changes in law occurring after such date. The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Shares. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Offer Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates or tax incentives under special laws. Prospective purchasers of the Offer Shares are advised to consult their own tax advisers concerning the tax consequences of their investment in the Offer Shares.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines;" otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

The term "non-resident holder" means a holder of the Offer Shares:

- *who is an individual who is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and*
- *should an income tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.*

Philippine Taxation

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") took effect. The TRAIN amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor's tax, and documentary stamp tax.

Sale, Exchange or Disposition of Shares after the IPO

Taxes on Transfer of Shares Listed and Traded at the PSE

Unless an applicable income tax treaty exempts the sale from income and/or percentage tax (*please see discussion below on tax treaties)*, a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder (other than a dealer in securities) is subject to a percentage tax usually referred to as a stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, which shall be paid by the seller or transferor. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain income tax treaties, the exemptions from capital gains tax may not be applicable to stock transaction tax.

In addition, Value-Added Tax (VAT) of 12% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client, the seller or transferor.

The stock transaction tax will not apply if the shares are sold outside the facilities of the PSE, including during a trading suspension. PSE Memorandum CN-No. 2012-0046 dated August 22, 2012 provides that immediately after December 31, 2012, the Philippine SEC shall impose a trading suspension for a period of not more than six (6) months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership ("**MPO**") which requires listed companies to maintain a minimum percentage of listed securities held by the public at ten percent (10%) of the listed companies issued and outstanding shares at all times. The sale of such listed company' shares during the trading suspension may be effected only outside the trading system of the PSE and shall therefore be subject to taxes on the sale of shares that are not listed or traded at the stock exchange (i.e., capital gains tax and documentary stamp tax, and may even include donor's tax).

The stock transaction tax will also not apply if the shares sold are issued by a corporation that does not meet the MPO requirement, even if the sale is done through the facilities of the PSE. Revenue Regulations No. 16-2012 ("R.R. 16-12") provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

Capital Gains Tax, if the Sale Was Made outside the PSE

The net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax at the rate of 15% of the net capital gains realized during the taxable year.

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are subject to final tax at the following rates:

Not over ₱100,000 …………………………. 5%
On any amount in excess of ₱100,000……… 10%

If an applicable income tax treaty exempts net gains from such sale from capital gains tax, an application for tax treaty relief has to be filed with the BIR in accordance with BIR regulations, and approved by the BIR, to avail of the exemption. (*Please see discussion below on tax treaties.)*

The transfer of shares shall not be recorded in the books of a company, unless the BIR has issued a Certificate Authorizing Registration ("**CAR**").

Tax on Dividends

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10%, which shall be withheld by the Company. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under income tax treaties executed between the Philippines and the country of residence or domicile of such non-resident alien individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by a resident foreign corporation are not subject to income tax while those received by a non-resident foreign corporation are generally subject to income tax at a final withholding tax rate of 30%. The 30% income tax rate for dividends paid to a non-resident foreign corporation may be reduced to a lower rate of 15% if tax sparing applies, which is when (i) the country where the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends or (ii) the country of domicile of the non-resident foreign corporation allows at least 15% credit equivalent for taxes deemed to have been paid in the Philippines.

In order to avail of the 15% tax sparing rate, Revenue Memorandum Circular No. 80-91 (*Publishing the Resolution of the Supreme Court dated March 7, 1990 in G.R. No. 76573 entitled "Marubeni Corporation vs. Commissioner of Internal Revenue and Court of Tax Appeals" re: pre-requisites for the availment of 15% preferential tax rate under then Section 24 (b)(1) (now Sec. 25(b)(5)(B)) of the Tax Code, as amended* dated August 12, 1991) states that the non-resident foreign holder has to submit the following documents to the payor of the cash dividends: (i) an authenticated certification issued by the foreign tax authority that the dividends received by the non-resident foreign corporation from the domestic corporation were not among the items considered in arriving at the income tax due from the non-resident foreign corporation; (ii) the income tax return of the non-resident foreign corporation for the taxable year when the dividends were received; and (iii) an authenticated document issued by the foreign tax authority showing that the foreign Government allowed a credit on the tax deemed paid in the Philippines or did not impose any tax on the dividends. The income recipient may also file a request for a ruling from the BIR that the 15% income tax rate is applicable to its receipt of the dividends and the request has to comply with Revenue Memorandum Order No. 9-2014 (*Requests for Rulings with the Law and Legislative Division* dated February 6, 2014) and other relevant BIR issuances. The income recipient should thereafter provide the payor of the cash dividends with proof of its filing of an application for a ruling with the BIR before the deadline for the remittance to the BIR of the withholding tax on the dividends.

The abovementioned tax rates are without prejudice to applicable preferential tax rates under income tax treaties in force between the Philippines and the country of domicile of the non-resident holder. *(Please see discussion on tax treaties below.)*

If the regular tax rate is withheld by the Company instead of the reduced rates applicable under an income tax treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Transfer taxes (e.g. documentary stamp tax, local transfer tax) may be payable if the dividends declared are property dividends, depending on the type of property distributed as dividends. Stock dividends distributed pro rata to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to stock transaction tax if the transfer is through a local stock exchange; or if the transfer is made outside of the exchange, capital gains tax; and documentary stamp tax.

Preferential Rates under the Income Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	Dividends (%)	Stock transaction tax on sale or disposition effected through the PSE (%)[9]	Capital gains tax due on disposition of shares outside the PSE (%)
Canada	25[1]	0.6	May be exempt[13]
China	15[2]	Exempt[10]	May be exempt[13]
France	15[3]	Exempt[11]	May be exempt[13]
Germany	15[4]	Exempt[12]	May be exempt[13]
Japan	15[5]	0.6	May be exempt[13]
Singapore	25[6]	0.6	May be exempt[13]
United Kingdom	25[7]	0.6	Exempt[14]
United States	25[8]	0.6	May be exempt[13]

Notes:

(1) 15% if the recipient company which is a resident of Canada controls at least 10% of the voting power of the company paying the dividends; 25% in all other cases.

(2) 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; 15% in all other cases.

(3) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends; 15% in all other cases.

(4) 5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends.; 15% in all other cases

(5) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends; 15% in all other cases.

(6) 15% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company; 25% in all other cases.

(7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends; 25% in all other cases.

(8) 20% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation; 25% in other cases. Notwithstanding the rates provided under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with respect to Taxes on Income, corporations which are residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.

(9) *If the stock transaction tax is not expressly included in the tax treaty, the income recipient will be subject to stock transaction tax at the rate of 0.6% of the gross selling price as provided under Section 127 of the Tax Code as amended by the Section 39 of the TRAIN.*

(10) *Article 2(2)(b) of the Agreement between the Government of the Republic of the Philippines and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on November 18, 1999.*

(11) *Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995 signed on June 26, 1995.*

(12) *Article 2 (3)(a) of Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013.*

(13) *Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.*

(14) *Under the income tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.*

When availing of capital gains tax exemption on the sale of shares of stock under an income tax treaty, a tax treaty exemption ruling from the BIR shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a CAR from the BIR is required before the transfer is registered in the stock and transfer book. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the tax treaty relief ruling should be submitted to the BIR office processing the CAR.

The requirements for a tax treaty relief application in respect of capital gains tax or the stock transaction tax on the sale of shares are set out in Revenue Memorandum Order No. 72-2010 (*Guidelines on the Processing of Tax Treaty Relief Applications (TTRA) Pursuant to Existing Philippine Tax Treaties* dated August 25, 2010), BIR Form No. 0901-C, and other BIR issuances. These include proof of residence in the country that is a party to the income tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable income tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

The tax treaty relief application has to be filed with the BIR before the first taxable event as defined under Revenue Memorandum Order No. 72-2010, which in respect of capital gains tax, is before the deadline for the payment of the documentary stamp tax on the sale of shares.

With respect to the availment of preferential rates for dividends under an income tax treaty, most tax treaties to which the Philippines is a party provide for a reduced tax rate of 15% in cases where the dividend arises in the Philippines and is paid to a resident of the other contracting state. Most income tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant dividend-earning interest is effectively connected with such permanent establishment.

The BIR prescribed certain procedures for availment of tax treaty relief on dividends under Revenue Memorandum Order No. 8-2017 (*Procedure for Claiming Tax Treaty Benefits for Dividend, Interest and Royalty Income of Nonresident Income Earners*, dated October 24, 2016). The preferential treaty rates shall be applied by the withholding agent/income payor provided that the non-resident income recipient submits, before the dividends are credited or paid, a Certificate of Residence for Tax Treaty Relief (CORTT) Form that complies with Revenue Memorandum Order No. 8-2017. After the remittance of the withholding tax to the BIR, the withholding agent/income payor shall submit within 30 days an original copy of the duly accomplished CORTT Form.

Documentary Stamp Tax

The Philippines imposes a documentary stamp tax (DST) upon the transfer outside the PSE of shares issued by a Philippine corporation at the rate of ₱1.50 on each ₱200, or a fractional part thereof, of the par value of the shares.

The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by either or both the vendor or the vendee of the shares.

However, the sale, barter or exchange of shares of stock listed and traded at the PSE is exempt from documentary stamp tax.

Estate and Gift Taxes

Shares issued by a domestic corporation are deemed to have a Philippine situs and their transfer by way of a succession or donation is subject to Philippine estate or donor's taxes.

The transfer by a deceased Philippine resident to his heirs of the Offer Shares shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6.0%. A holder of the Offer Shares who is a Philippine resident shall be subject to donor's tax based on the total gifts in excess of ₱250,000.00 exempt gift made during the calendar year on the transfer of the Offer Shares by donation at a rate of 6.0%.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Offer Shares, shall not be collected: (1) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (2) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Offer Shares are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Offer Shares exceeded the value of the consideration may be deemed a gift, and donor's taxes may be imposed on the transferor of the Offer Shares, based on Section 100 of the Philippine Tax Code, provided that a transfer of property made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Taxation outside the Philippines

Shares of stock in a domestic corporation are considered under Philippine law to be situated in the Philippines and any gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donors' tax or estate tax.

The tax treatment of a non-resident holder in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of its domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations of non-resident holders of shares of stock under laws other than those of the Philippines.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

PHILIPPINE FOREIGN OWNERSHIP AND FOREIGN EXCHANGE CONTROLS

The Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("**R.A. 8762**"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of the Retail Trade Liberalization Act, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling directly to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, foreign-owned partnerships, associations or corporations formed and organized under the laws of the Philippines may, upon registration with the Philippine SEC and the DTI, or in the case of foreign owned single proprietorships, with the DTI, engage or invest in the retail trade business, under the following categories:

- Category A Enterprises with paid-up capital that is less than the equivalent of US$2,500,000 in Pesos shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens.

- Category B Enterprises with a minimum paid-up capital that is equivalent to US$2,500,000 in Pesos, but is less than US$7,500,000, may be wholly-owned by foreigners except for the first two years after the effectively of the Retail Trade Liberalization Act (wherein foreign participation was limited to not more than 60% of total equity).

- Category C Enterprises with a paid-up capital that is equivalent to or more than US$7,500,000 in Pesos may be wholly owned by foreigners, provided that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent of US$830,000 in Pesos. Effective March 25, 2002, Category C ceased to be a permitted category.

- Category D Enterprises specializing in high-end or luxury products with a paid-up capital that is equivalent to US$250,000 in Pesos per store may be wholly-owned by foreigners.

Any foreign investor may be allowed to invest in existing retail stores. However, the investment must comply with the paid-up capitalization requirements enumerated above.

Furthermore, foreign investors whom are also retailers and invest in existing retail stores are required to be pre-qualified with the Board of Investments before they can buy shares. No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

(1) A minimum of US$200 million net worth in its parent corporation for Categories B and C, and US$50 million net worth in its parent corporation for Category D;

(2) Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US$25 million;

(3) Five-year track record in retailing; and

(4) Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines.

The implementing rules of Republic Act No. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers before they are allowed to conduct business in the Philippines.

Foreign Ownership Controls

Republic Act No. 7042, or the Foreign Investments Act of 1991, as amended ("**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners may own as much as 100% equity except in areas specified in the Foreign Investment Negative List. The Foreign Investment Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

- A citizen of the Philippines;
- A domestic partnership or association wholly-owned by citizens of the Philippines;
- A corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- A corporation organized abroad and registered as doing business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- A trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation.

A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years. In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Land Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Registration of Foreign Investments and Foreign Exchange Regulations

Under current BSP regulations, an investment in listed Philippine securities (such as the Offer Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such Shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. BSP Circular No. 471 (Series of 2005), as amended, however, subjects foreign exchange dealers, money changers and remittance agents to R.A. No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit, among others, the original BSP registration documents in connection with their application to purchase foreign exchange exceeding US$5,000.00 for purposes of capital repatriation and remittance of dividends. BSP Circular No. 942 (Series of 2017) lists minimum documentary requirements that must be submitted by foreign exchange buyers for purposes of capital repatriation and remittance of dividends, regardless of amount.

The application for registration of Philippine securities listed in the PSE may be done directly with the BSP or through a custodian bank duly designated by the investor. A custodian bank may be a universal or commercial bank, or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (i) purchase invoice, subscription agreement and proof of listing on the PSE (either or both), (ii) credit advice or bank certificate showing the amount of foreign currency inwardly remitted and converted into Pesos, and (iii) transfer instructions from the stockbroker or dealer, as the case may be.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (i) the original BSP registration document; (ii) a copy of the cash dividends notice from the PSE and the Philippine Central Depository printout of cash dividend payment or computation of interest earned; (iii) a copy of the secretary's sworn statement on the board resolution covering the dividend declaration; and (iv) a detailed computation of the amount applied for in the format prescribed by the BSP. For direct foreign equity investments, a copy of the latest audited financial statement or interim financial statement of the investee firm covering the dividend declaration period, and where applicable, a copy of the clearance issued to the investee firm by the appropriate regulatory body, must also be submitted.

Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the BSP, through the Monetary Board, with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

PLAN OF DISTRIBUTION

12,028,200 Offer Shares (the "**Trading Participants' Offer Shares**"), or 3.0% of the Firm Shares, are (subject to re-allocation as described below) being offered and sold by the Local Lead Underwriters at the Offer Price in the Philippines (the "**Trading Participants' Offer**"). 388,912,390 Offer Shares, or 97% of the Firm Shares, are (subject to re-allocation as described below) being offered for sale (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters (the "**Institutional Offer**"). Notwithstanding the Joint Global Coordinators and Joint Bookrunners being named in this Prospectus, offers and/or sales by the Joint Global Coordinators and Joint Bookrunners of Offer Shares outside the Philippines are not governed by Philippine laws. The allocation of the Offer Shares between the Trading Participants' Offer and the Institutional Offer is subject to adjustment as agreed between the Company, the Joint Global Coordinators, the Joint Bookrunners and the Local Lead Underwriters. The Joint Global Coordinators, the Joint Bookrunners and the Local Lead Underwriters will underwrite, on a firm commitment basis, the Institutional Offer Shares, and the Local Lead Underwriters will underwrite, on a firm commitment basis, the Trading Participants' Offer Shares. None of the Joint Global Coordinators or Joint Bookrunners will offer, whether directly or indirectly through its local affiliates, any Offer Shares in the Philippines. Any offers by the Joint Global Coordinators and the Joint Bookrunners of Offer Shares will be conducted outside of the Philippines. However, this is without prejudice to the option of Joint Global Coordinators and the Joint Bookrunners to offer Shares in the Philippines in the future, provided that such Joint Global Coordinators and Joint Bookrunners will comply with the legal requirements under Philippine law. There is no arrangement for any of the Joint Global Coordinators, the Joint Bookrunners or the Local Lead Underwriters to return any of the Offer Shares relating to the Trading Participants' Offer or the Institutional Offer to the Company.

The Trading Participants' Offer

The Trading Participants' Offer Shares shall (subject to re-allocation as described below) be offered by the Local Lead Underwriters to the PSE Trading Participants. Each PSE Trading Participant shall initially be allocated approximately 91,800 Firm Shares (computed by dividing the Trading Participants' Offer Shares allocated to the PSE Trading Participants among the 131 PSE Trading Participants) and subject to reallocation as may be determined by the Local Lead Underwriters. The remainder of 2,400 Firm Shares, plus any Offer Shares allocated to the PSE Trading Participants but not taken up by them, will be distributed by the Local Lead Underwriters to their clients, retail investors or the general public. Trading Participants' Offer Shares not taken up by the PSE Trading Participants and which are not reallocated to the Institutional Offer, or taken up by the clients of the Local Lead Underwriters, retail investors or the general public shall be purchased by the Local Lead Underwriters pursuant to the terms and conditions of the Domestic Underwriting Agreement (as defined below).

To facilitate the Trading Participants' Offer, the Company has appointed BDO Capital and BPI Capital to act as the Local Lead Underwriters. The Company, the Selling Shareholder and the Local Lead Underwriters shall enter into a Domestic Underwriting Agreement to be dated on or about October 25, 2018 (the "**Domestic Underwriting Agreement**"), whereby the Local Lead Underwriters agree to underwrite, on a firm commitment basis, the Trading Participants' Offer Shares, subject to agreement between the Joint Global Coordinators, the Joint Bookrunners and the Local Lead Underwriters, on any clawback, clawforward or other such mechanism relating to reallocation of the Shares between the Institutional Offer and the Trading Participants' Offer.

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc. It obtained its licence from the Philippine SEC to operate as an investment house in 1998 and is licensed by the Philippine SEC to engage in the underwriting and distribution of securities to the public. As of June 30, 2018, BDO Capital had total assets of ₱3.9 billion, total liabilities of ₱0.4 billion and total equity of ₱3.5 billion.

BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December of 1994, BPI Capital is duly licensed by the Philippine SEC to engage in the underwriting and distribution of securities. As of September 30, 2018, BPI Capital had total assets of ₱3.56 billion, total liabilities of ₱0.04 billion and total equity of ₱3.52 billion. The firm operates as a wholly owned subsidiary of the Bank of the Philippine Islands.

Each Local Lead Underwriter and its respective affiliates have engaged in transactions with, and have performed various investment banking, commercial banking and other services for the Company in the past, and may do so for the Company, the Selling Shareholder and their respective subsidiaries and affiliates from time to time in the future. However, all services provided by the Local Lead Underwriters, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Company or the Selling Shareholder. The Local Lead Underwriters do not have any right to designate or nominate a member of the Board. The Local Lead Underwriters have no direct relationship with the Company in terms of share ownership and, other than as Local Lead Underwriters for the Offer, do not have any material relationship with the Company.

On or before 12:00 noon on October 31, 2018, the PSE Trading Participants shall submit to the designated representatives of the Local Lead Underwriters or the Receiving Agent their respective firm orders and commitments to purchase Trading Participants' Offer Shares.

Each of the Local Lead Underwriters shall receive from the Selling Shareholder a fee equivalent to 0.08% of the gross proceeds of the sale of the Offer Shares. The underwriting fees shall be withheld by the Receiving Agent from the proceeds of the Trading Participants' Offer and proceeds from the sale of the Institutional Offer Shares allocated to the Local Lead Underwriters.

PSE Trading Participants who take up Trading Participants' Offer Shares shall be entitled to a selling fee of 0.25%, inclusive of VAT, of the Trading Participants' Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less a withholding tax of 10%, will be paid by the Receiving Agent to the PSE Trading Participants within ten banking days from November 7, 2018.

The Institutional Offer

The Institutional Offer Shares will be offered for sale (i) outside the United States by the Joint Global Coordinators and the Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, (ii) within the United States through the Joint Global Coordinators' and the Joint Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines, by the Local Lead Underwriters. Notwithstanding the Joint Global Coordinators and Joint Bookrunners being named in this Prospectus, offers and/or sales by the Joint Global Coordinators and Joint Bookrunners of Offer Shares outside the Philippines are not governed by Philippine laws. None of the Joint Global Coordinators or Joint Bookrunners will offer, whether directly or indirectly through its local affiliates, any Offer Shares in the Philippines. Any offers by the Joint Global Coordinators and the Joint Bookrunners of Offer Shares will be conducted outside of the Philippines. The allocation of the Offer Shares between the Trading Participants' Offer and the Institutional Offer is subject to adjustment as agreed between the Company, the Joint Global Coordinators, the Joint Bookrunners and the Local Lead Underwriters. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants' Offer, Firm Shares in the Institutional Offer may be reallocated to the Trading Participants' Offer. If there is an under-application in the Trading Participants' Offer and if there is a corresponding over-application in the Institutional Offer, Firm Shares in the Trading Participants' Offer may be reallocated to the Institutional Offer. The reallocation shall not apply in the event of over-application or under-application in both the Trading Participants' Offer, on the one hand, and the Institutional Offer, on the other hand.

The Purchase Agreement to be dated on or about October 25, 2018, entered into among the Company, the Selling Shareholder, the Joint Global Coordinators and the Joint Bookrunners is subject to certain conditions and may be subject to termination by the Joint Global Coordinators and the Joint Bookrunners if certain circumstances, including force majeure, occur on or before the Settlement Date.

Under the terms and conditions of the Purchase Agreement , each of the Joint Global Coordinators and the Joint Bookrunners has agreed, severally and not jointly, to procure purchasers for or failing which to purchase the respective number of Institutional Offer Shares indicated in the following table. In addition, pursuant to the Domestic Underwriting Agreement, each of the Local Lead Underwriters agrees to underwrite, on a firm commitment basis, the respective number of Institutional Offer Shares indicated in the following table, subject to agreement between the Joint Global Coordinators and the Joint Bookrunners and the Local Lead Underwriters on any clawback, clawforward or other such mechanism relating to reallocation of the Offer Shares between the Institutional Offer and the Trading Participants' Offer.

	Number of Institutional Offer Shares
J.P. Morgan Securities plc	80,188,100
Morgan Stanley Asia (Singapore) Pte.	80,188,100
UBS AG, Singapore Branch	80,188,100
Deutsche Bank AG, Hong Kong Branch	48,112,900
Goldman Sachs (Singapore) Pte	48,112,900
BDO Capital & Investment Corporation	26,061,190
BPI Capital Corporation	26,061,100

The table does not reflect the exercise of the Over-Allotment Option that may or may not be exercised by UBS and its relevant affiliates, as Stabilizing Agent to purchase up to 60,141,090 additional Shares from the Selling Shareholder.

Each of the Joint Global Coordinators and the Joint Bookrunners and their respective affiliates have, from time to time, engaged in, and may in the future engage in, investment banking, financing, private banking, commercial banking or financial consulting activities and other commercial dealings in the ordinary course of business with the Company, the Selling Shareholder and/or their respective affiliates. They have received and expect to continue to receive customary fees and commissions for these activities and dealings. In addition, in the ordinary course of business, each of the Joint Global Coordinators and the Joint Bookrunners and their respective affiliates may trade the Company's securities or the securities of the Company's affiliates or derivatives relating to the foregoing securities for its and/or its affiliates' own account and/or for the accounts of customers, and may at any time hold a long or short position in such securities.

Investors in the Institutional Offer will be required to pay, in addition to the Offer Price, a brokerage fee of up to 1% of the Offer Price.

The Over-Allotment Option

In connection with the Offer, subject to the approval of the Philippine SEC, the Selling Shareholder has granted the Stabilizing Agent an Over-allotment Option, exercisable in whole or in part to purchase up to an additional 60,141,090 Shares at the Offer Price and on the same terms and conditions as the Firm Shares, as set forth herein, from time to time for a period which shall not exceed 30 calendar days from and including the Settlement Date. In connection therewith, the Selling Shareholder has entered into a Greenshoe Agreement with the Stabilizing Agent to utilize up to an additional 60,141,090 Shares to cover over-allocations under the Institutional Offer. Any Shares that may be delivered to the Stabilizing Agent under the Greenshoe Agreement will be re-delivered to the Selling Shareholder either through the purchase of Shares in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Over-allotment Option by the Stabilizing Agent. The Optional Shares may be over-allotted and the Stabilizing Agent may effect price stabilization transactions for a period beginning on or after the Settlement Date, but extending no later than 30 days from the Settlement Date. The Stabilizing Agent may purchase Shares in the open market only if the market price of the Shares falls below the Offer Price. Such activities may stabilize, maintain or otherwise affect the market price of the Shares, which may have the effect of preventing a decline in the market price of the Shares and may also cause the price of the Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions (which would include thereafter disposing of or selling the Shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the Shares will not decline significantly after any such stabilizing activities end. Once the Over-allotment Option has been fully exercised by the Stabilizing Agent, it will no longer be allowed to purchase Shares in the open market for the conduct of stabilization activities. To the extent the Over-allotment Option is not fully exercised by the Stabilizing Agent, the same shall be deemed cancelled and the relevant Option Shares shall be re-delivered to the Selling Shareholder.

Selling Restrictions

The distribution of this Prospectus or any offering material and the offer, sale or delivery of the Offer Shares is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Prospectus or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Prospectus may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

Philippines

No securities, except for a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the Philippine SEC on Form 12-1 and the registration statement has been declared effective by the Philippine SEC.

Lock Up

The Company and the Selling Shareholder have agreed with the Joint Global Coordinators and the Joint Bookrunners that, except in connection with the Over-allotment Option, they will not, without the prior written consent of the Joint Global Coordinators and the Joint Bookrunners, issue, offer, pledge, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Shares or securities convertible or exchangeable into or exercisable for any Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 days after the Settlement Date, except that within such 180 day period, the Company, the Selling Shareholder or any person acting on their behalf is permitted to issue, offer, pledge, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Shares or securities convertible or exchangeable into or exercisable for any Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options without obtaining such prior written consent, in order to comply with the applicable MPO threshold.

Indemnity

The Purchase Agreement provides that the Company and the Selling Shareholder will indemnify the Joint Global Coordinators and the Joint Bookrunners against certain liabilities, including under the U.S. Securities Act.

Registration of Foreign Investments

The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "*Philippine Foreign Ownership and Foreign Exchange Controls—Registration of Foreign Investments and Foreign Exchange Regulations*."

LEGAL MATTERS

Certain legal matters as to Philippine law relating to the Offer will be passed upon by Picazo Buyco Tan Fider & Santos, our legal counsel, and SyCip Salazar Hernandez & Gatmaitan, legal counsel to the Joint Global Coordinators, the Joint Bookrunners, and the Local Lead Underwriters. Certain legal matters as to United States federal law will be passed upon by Latham & Watkins, our legal counsel, and Milbank Tweed Hadley and McCloy LLP, legal counsel to the Joint Global Coordinators, Joint Bookrunners, and Local Lead Underwriters.

Each of the foregoing legal counsel has neither our shareholdings nor any right, whether legally enforceable or not, to nominate persons or to subscribe for our securities. None of the legal counsel will receive any direct or our indirect interest in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

INDEPENDENT AUDITORS

The combined financial statements of San Miguel Food and Beverage, Inc. as of December 31, 2017, 2016 and 2015 and for the years then ended, included herein, have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, as stated in their report appearing herein, including its separate report on supplementary information, which includes an explanatory paragraph that draws attention to the disclosures for the basis of preparation and nature of the combined entities.

We have not had any material disagreements on accounting and financial disclosures with our current external auditors for the same periods or any subsequent interim period. R.G. Manabat & Co. has neither shareholdings in us nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in us. R.G. Manabat & Co. will not receive any direct or indirect interest in us or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees billed to us for each of the last two fiscal years for professional services rendered by R.G. Manabat & Co. in 2018, and Reyes Tacandong & Co. in 2017, excluding fees directly related to the Offer. R.G. Manabat & Co., our current independent auditors, does not provide us other services that are not reasonably related to the performance of the audit or review of our financial statements.

	2017	**2018**
Audit and Audit-Related fees	₱1,600,000.00	₱0

Audit and Audited-Related Fees refer to the professional services rendered by our independent auditors for audit of the Company's annual financial statements and services that are normally provided in connection with statutory and regulatory filings for the said calendar years. The fees presented above include out-of-pocket expenses incidental to the Independent Auditors' services.

INDEX TO FINANCIAL STATEMENTS

Condensed consolidated interim financial statements of the Company as of and for the six-month period ended June 30, 2018 and 2017, including comparative information presented as corresponding figures as of and for the six-month period ended June 30, 2017

Combined financial statements of SMFB (formerly SMPFC), SMB and GSMI as of and for the years ended December 31, 2017, 2016 and 2015 including comparative information presented as corresponding figures as of and for the years ended December 31, 2016 and 2015

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(In Millions)

	Note	June 30 2018	December 31 2017 As Restated (Note 5)
ASSETS			
Current Assets			
Cash and cash equivalents	*16, 17*	**₱ 35,448**	₱ 35,540
Trade and other receivables — net	*16, 17*	**15,508**	18,237
Inventories	*7*	**30,932**	28,358
Current portion of biological assets — net		**3,822**	3,422
Prepaid expenses and other current assets	*16, 17*	**5,116**	4,872
Total Current Assets		**90,826**	90,429
Noncurrent Assets			
Investments		**397**	399
Property, plant and equipment — net	*8*	**55,284**	51,125
Investment property — net	*9*	**2,120**	2,100
Biological assets — net of current portion		**2,760**	2,695
Goodwill — net	*10*	**996**	996
Other intangible assets — net	*10*	**41,021**	40,786
Deferred tax assets		**2,692**	2,791
Other noncurrent assets — net	*11, 16, 17*	**15,944**	13,782
Total Noncurrent Assets		**121,214**	114,674
		₱ 212,040	₱ 205,103
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*16, 17*	**₱ 12,625**	₱ 13,939
Trade payables and other current liabilities	*16, 17*	**33,828**	33,609
Income and other taxes payable		**5,618**	5,734
Dividends payable		**33**	30
Current maturities of long-term debt — net of debt issue costs	*12, 16, 17*	**12,850**	114
Total Current Liabilities		**64,954**	53,426
Noncurrent Liabilities			
Long-term debt — net of current maturities and debt issue costs	*12, 16, 17*	**21,896**	34,665
Deferred tax liabilities		**52**	53
Other noncurrent liabilities	*16, 17*	**2,201**	2,338
Total Noncurrent Liabilities		**24,149**	37,056
Equity			
Equity Attributable to Equity Holders of the Parent Company	*5, 13*		
Capital stock		**₱ 6,251**	₱ 6,251
Additional paid-in capital		**366,620**	367,342
Equity adjustments from common control transactions		**(328,273)**	(328,273)
Other equity reserves		**(1,271)**	(1,784)
Retained earnings:			
Appropriated		**17,377**	12,378
Unappropriated		**38,019**	37,950
Treasury stock		**(15,182)**	(15,182)
		83,541	**78,682**
Non-controlling Interests	*5*	**39,396**	35,939
Total Equity		**122,937**	114,621
		₱ 212,040	₱ 205,103

See Accompanying Selected Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
(Unaudited)
(In Millions, Except Per Share Data)

	Note	For the Six Months Ended June 30		For the Quarter Ended June 30	
		2018	2017 As Restated (Note 5)	2018	2017 As Restated (Note 5)
SALES	6	**₱137,441**	₱119,130	**₱ 71,444**	₱ 61,969
COST OF SALES	7	**92,608**	80,152	**48,006**	41,559
GROSS PROFIT		**44,833**	38,978	**23,438**	20,410
SELLING AND ADMINISTRATIVE EXPENSES		**(21,944)**	(19,923)	**(11,470)**	(10,387)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	12	**(1,314)**	(1,372)	**(669)**	(663)
INTEREST INCOME		**544**	317	**278**	157
EQUITY IN NET LOSSES OF JOINT VENTURES		**(55)**	(41)	**(20)**	(19)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		**3**	12	**3**	5
OTHER INCOME (CHARGES) — Net		**(203)**	42	**(2)**	21
INCOME BEFORE INCOME TAX		**21,864**	18,013	**11,558**	9,524
INCOME TAX EXPENSE		**6,494**	5,208	**3,480**	2,807
NET INCOME		**₱ 15,370**	₱ 12,805	**₱ 8,078**	₱ 6,717
Attributable to:					
Equity holders of the Parent Company		**₱ 9,260**	₱ 7,929	**₱ 4,908**	₱ 4,178
Non-controlling interests		**6,110**	4,876	**3,170**	2,539
		₱ 15,370	₱ 12,805	**₱ 8,078**	₱ 6,717
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	15	**₱ 1.50**	₱ 1.27	**₱ 0.79**	₱ 0.67

See Accompanying Selected Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In Millions)

	For the Six Months Ended June 30		For the Quarter Ended June 30	
	2018	2017 As Restated (Note 5)	2018	2017 As Restated (Note 5)
NET INCOME	**₱15,370**	₱12,805	**₱8,078**	₱6,717
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurement gain on reserve for retirement plan	**36**	10	**30**	12
Income tax expense	**(7)**	—	**(7)**	—
Share in other comprehensive income of joint ventures	**16**	42	**3**	11
Net gain on financial assets at fair value through other comprehensive income	**1**	—	**1**	—
	46	**52**	**27**	**23**
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations	**1,049**	528	**(10)**	195
Net loss on available-for-sale financial assets	**—**	(1)	**—**	(1)
	1,049	527	**(10)**	194
OTHER COMPREHENSIVE INCOME — Net of tax	**1,095**	579	**17**	217
TOTAL COMPREHENSIVE INCOME — Net of tax	**₱16,465**	₱13,384	**₱8,095**	₱6,934
Attributable to:				
Equity holders of the Parent Company	**₱ 9,773**	₱ 8,235	**₱4,887**	₱4,291
Non-controlling interests	**6,692**	5,149	**3,208**	2,643
	₱16,465	₱13,384	**₱8,095**	₱6,934

See Accompanying Selected Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Unaudited)
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves				Retained Earnings						
		Capital Stock										Treasury Stock				
	Note	Common	Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Non-controlling Interests	Total Equity
As at January 1, 2018		**₱1,709**	**₱300**	**₱ 35,235**	**₱ —**	**₱ (547)**	**₱ 5**	**₱(140)**	**₱ 401**	**₱ 2,999**	**₱21,125**	**₱(182)**	**₱(15,000)**	**₱ 45,905**	**₱ 2,243**	**₱ 48,148**
Share swap transaction	*5*	**4,242**	**—**	**332,107**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**336,349**	**—**	**336,349**
Effect of common control business combination	*5*	**—**	**—**	**—**	**(328,273)**	**(1,363)**	**1**	**337**	**(478)**	**9,379**	**16,825**	**—**	**—**	**(303,572)**	**33,696**	**(269,876)**
As at January 1, 2018, As Restated		**5,951**	**300**	**367,342**	**(328,273)**	**(1,910)**	**6**	**197**	**(77)**	**12,378**	**37,950**	**(182)**	**(15,000)**	**78,682**	**35,939**	**114,621**
Adjustment due to Philippine Financial Reporting Standards (PFRS) 9	*3*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**51**	**—**	**—**	**51**	**49**	**100**
As at January 1, 2018, As Adjusted		**5,951**	**300**	**367,342**	**(328,273)**	**(1,910)**	**6**	**197**	**(77)**	**12,378**	**38,001**	**(182)**	**(15,000)**	**78,733**	**35,988**	**114,721**
Net income		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,260**	**—**	**—**	**9,260**	**6,110**	**15,370**
Other comprehensive income		**—**	**—**	**—**	**—**	**8**	**1**	**504**	**—**	**—**	**—**	**—**	**—**	**513**	**582**	**1,095**
Total comprehensive income		**—**	**—**	**—**	**—**	**8**	**1**	**504**	**—**	**—**	**9,260**	**—**	**—**	**9,773**	**6,692**	**16,465**
Additions to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**60**	**60**
Appropriations		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,999**	**(4,999)**		**—**	**—**	**—**	**—**
Share issuance costs:																
Share swap transaction	5	—	—	(722)	—	—	—	—	—	—	—	—	—	(722)	—	(722)
Increase in authorized capital stock		—	—	—	—	—	—	—	—	—	(9)	—	—	(9)	—	(9)
Cash dividends declared		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,091)**	**—**	**—**	**(1,091)**	**(343)**	**(1,434)**
Cash dividends declared by San Miguel Brewery Inc. to San Miguel Corporation before the restructuring	*13*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,143)**	**—**	**—**	**(3,143)**	**(3,001)**	**(6,144)**
As at June 30, 2018		**₱5,951**	**₱300**	**₱366,620**	**₱(328,273)**	**₱(1,902)**	**₱ 7**	**₱ 701**	**₱ (77)**	**₱17,377**	**₱38,019**	**₱(182)**	**₱(15,000)**	**₱ 83,541**	**₱39,396**	**₱ 122,937**

Forward

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY — (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Unaudited)
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves				Retained Earnings						
		Capital Stock										Treasury Stock				
	Note	Common	Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred	Total	Non-controlling Interests	Total Equity
As at January 1, 2017		₱1,709	₱300	₱ 35,235	₱ —	₱ (386)	₱ 5	₱(142)	₱ 401	₱ 2,999	₱16,412	₱(182)	₱(15,000)	₱ 41,351	₱ 1,836	₱ 43,187
Share swap transaction	5	4,242	—	332,107	—		—	—	—	—	—	—	—	336,349	—	336,349
Effect of common control business combination	5	—	—	—	(328,273)	(1,385)	(5)	10	(478)	4,360	16,766	—	—	(309,005)	28,513	(280,492)
As at January 1, 2017, As Restated		5,951	300	367,342	(328,273)	(1,771)	—	(132)	(77)	7,359	33,178	(182)	(15,000)	68,695	30,349	99,044
Net income		—	—	—	—	—	—	—	—	—	7,929	—	—	7,929	4,876	12,805
Other comprehensive income		—	—	—	—	3	(1)	304	—	—	—	—	—	306	273	579
Total comprehensive income		—	—	—	—	3	(1)	304	—	—	7,929	—	—	8,235	5,149	13,384
Appropriations — net		—	—	—	—	—	—	—	—	(1,535)	1,535	—	—	—	—	—
Cash dividends declared		—	—	—	—	—	—	—	—	—	(924)	—	—	(924)	(240)	(1,164)
Cash dividends declared by San Miguel Brewery Inc. to San Miguel Corporation before the restructuring	13	—	—	—	—	—	—	—	—	—	(2,829)	—	—	(2,829)	(2,701)	(5,530)
As at June 30, 2017		₱5,951	₱300	₱367,342	₱(328,273)	₱(1,768)	₱ (1)	₱ 172	₱ (77)	₱ 5,824	₱38,889	₱(182)	₱(15,000)	₱ 73,177	₱32,557	₱ 105,734

See Accompanying Selected Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Unaudited)
(In Millions)

	Note	2018	2017 As Restated (Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱ 21,864**	₱ 18,013
Adjustments for:			
Depreciation and amortization	*8, 9*	**3,892**	3,544
Interest expense and other financing charges	*12*	**1,314**	1,372
Retirement costs		**669**	895
Provision for impairment losses on receivables and write-down of inventories		**539**	452
Other charges (income) net of loss (gain) on derivative transactions		**240**	(56)
Equity in net losses of joint ventures		**55**	41
Interest income		**(544)**	(317)
Gain on fair valuation of agricultural produce		**(101)**	(72)
Gain on sale of investments and property and equipment		**(3)**	(12)
Operating income before working capital changes		**27,925**	23,860
Decrease (increase) in:			
Trade and other receivables	*14*	**2,867**	4,547
Inventories		**(3,023)**	(2,087)
Biological assets		**(400)**	(256)
Prepaid expenses and other current assets		**(556)**	104
Increase (decrease) in trade payables and other current liabilities	*14*	**(127)**	1,764
Cash generated from operations		**26,686**	27,932
Income taxes paid		**(6,229)**	(5,080)
Interest paid		**(1,287)**	(1,239)
Contributions paid		**(605)**	(326)
Interest received		**531**	302
Net cash flows provided by operating activities		**19,096**	21,589
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and investment property	*8, 9*	**(5,254)**	(5,541)
Increase in biological assets, intangible assets and other noncurrent assets		**(4,887)**	(2,749)
Proceeds from sale of investments and property and equipment		**13**	16
Net cash flows used in investing activities		**(10,128)**	(8,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		**80,410**	99,730
Payments of:			
Short-term borrowings		**(81,726)**	(101,559)
Long-term borrowings		**(57)**	(3,057)
Cash dividends paid		**(7,577)**	(6,693)
Payment of share issuance costs		**(692)**	—
Net cash flows used in financing activities		**(9,642)**	(11,579)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**582**	99
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(92)**	1,835
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**35,540**	30,332
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**₱ 35,448**	₱ 32,167

See Accompanying Selected Notes to the Condensed Consolidated Interim Financial Statements.

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

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

1. Reporting Entity

San Miguel Food and Beverage, Inc. (SMFB or the "Parent Company", formerly San Miguel Pure Foods Company Inc.), a subsidiary of San Miguel Corporation (SMC or the "Intermediate Parent Company"), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in October 1956 for a term of 50 years. On August 8, 2006, the stockholders approved the amendment to the Articles of Incorporation of the Parent Company, extending the term for which the corporation is to exist for another 50 years from October 30, 2006 or until October 30, 2056. The amendment was subsequently approved by the SEC.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed in the Philippine Stock Exchange (PSE) since 1973 and 2011, respectively. Top Frontier Investment Holdings, Inc. ("Top Frontier") is the ultimate parent company of SMFB and its subsidiaries (collectively referred to as the "Group"). SMC and Top Frontier are both public companies under Section 17.2 of the Securities Regulation Code (SRC).

The accompanying condensed consolidated interim financial statements comprise the financial statements of the Group and the Group's interests in joint ventures.

The Group is engaged in various business activities, which as of reporting date include poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, specialty oils, spreads, desserts and dairy-based products, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling. Following the corporate reorganization in June 2018, the Group is also engaged in manufacturing, selling and distribution of alcoholic and non-alcoholic beverages.

On November 3, 2017, the Board of Directors (BOD) of SMC approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to result in synergies in the food and beverage business units of the San Miguel Group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel Group through SMFB.

In this connection, the following corporate actions were approved by the BOD of SMFB on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of SMFB to include the beverage business and accordingly change its corporate name from "San Miguel Pure Foods Company Inc." to "San Miguel Food and Beverage, Inc.", reduce the par value of SMFB's common shares from ₱10.00 per share to ₱1.00 per share, and deny pre-emptive rights for issuances or dispositions of all common shares (collectively, the "First Amendments"); (b) upon approval by the SEC of the First Amendments, the increase in SMFB's authorized capital stock by ₱9,540 divided into 9,540,000,000 common shares with a par value of ₱1.00 per share, and the amendment to the Articles of Incorporation to reflect such increase (the "Increase"); (c) the acquisition of all of SMC's common shares in San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI) (collectively, the "Exchange Shares") and issuance by SMFB of 4,242,549,130 new common shares (the "New Shares") to SMC from the Increase, as consideration for the Exchange Shares; (d) the tender offer for SMB and GSMI shares held by minority shareholders, if required; and (e) the listing on the PSE of the additional shares resulting from the reduction of par value of common shares and the New Shares to be issued to SMC.

On January 18, 2018, the stockholders of SMFB, in its special stockholders' meeting, approved the foregoing corporate actions.

On March 14, 2018, the following amendments to the By-laws of SMFB were approved by the BOD of SMFB: (i) the change in corporate name to "San Miguel Food and Beverage, Inc." in the Title of the By-laws; (ii) the change in Official Seal of SMFB to reflect the said new corporate name in Article XI of the By-laws; and (iii) the disqualification for director in SMFB to the effect that persons engaged in any business that competes with or is antagonistic to that of SMFB are disqualified from sitting in the Board of Directors of SMFB, in Article II, Section 1 of the By-laws (collectively, the "Corporate Name Related Amendments").

On March 23, 2018, the SEC approved the First Amendments to the Articles of Incorporation of SMFB.

On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB the Exchange Shares at the total transfer value of ₱336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue unto SMC the New Shares which will be taken out of the Increase. As such, the issuance of the New Shares to SMC and the transfer of the Exchange Shares to SMFB was conditioned upon the approval by the SEC of the Increase.

On May 11, 2018, the stockholders of SMFB, in its regular stockholders' meeting, approved the (i) amendments to the By-laws of SMFB to reflect the Corporate Name Related Amendments, and (ii) delegation to management of the authority previously approved by the BOD on March 14, 2018, to sign, execute and deliver all documents on behalf of SMFB, as well as to take all other actions in order for SMFB to comply with the minimum public ownership requirement of the SEC and PSE for publicly listed companies, including the offer and issuance of new common shares to the public.

On June 18, 2018, the SEC approved the Corporate Name Related Amendments to the By-laws of SMFB.

On June 29, 2018, the SEC approved the Increase by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation. As a result of the approval of the Increase, which involved the issuance by SMFB of the New Shares to SMC in consideration for the Exchange Shares, the consolidation of the food and beverage businesses of SMC under SMFB was completed.

With the approval of the increase in the authorized capital stock of SMFB, the SEC consequently accepted and approved the transfer value of the Exchange Shares amounting to ₱336,349, the investment value of SMFB in SMB and GSMI.

As a result of the consolidation, SMFB now operates its business through major operating food subsidiaries as well as the major operating beverage subsidiaries of SMB and GSMI.

The registered office address of the Parent Company is at the 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City.

SMB

SMB was incorporated and registered with the SEC on July 26, 2007. SMB is a public company under Section 17.2 of the SRC and its outstanding Peso- denominated fixed rate bonds issued in 2009, 2012 and 2014 are listed on the Philippine Dealing & Exchange Corp. (PDEx).

SMB's common shares were listed on the PSE on May 12, 2008. SMB filed a petition for voluntary delisting with the PSE following the PSE's adoption of the minimum public ownership rule and denial by SEC of all requests made (including SMB's request) for the extension of the grace period to comply with such rule. The petition was approved by the PSE on April 24, 2013 and SMB's common shares were delisted effective May 15, 2013.

SMB and its subsidiaries are primarily engaged in manufacturing, selling and distribution of fermented and malt-based alcoholic beverages, as well as non-alcoholic beverages. SMB is also engaged in acquiring, developing and licensing trademarks and intellectual property rights and in the management, sale, exchange, lease and holding for investment of real estate of all kinds including buildings and other structures.

GSMI

GSMI, formerly La Tondeña Distiller's, Inc., was incorporated and registered with the SEC on July 10, 1987. GSMI is a public company under Section 17.2 of the SRC and its shares are listed on the PSE.

GSMI and its subsidiaries are primarily engaged in production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants which are available nationwide, while some are exported to select countries. GSMI used to engage in the non-alcoholic beverage (NAB) business until the sale of the NAB assets to SMB in 2015.

2. Basis of Preparation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and financial performance of the Group since the last annual consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 (2017 audited consolidated financial statements). The condensed consolidated interim financial statements do not include all the information required for a complete set of financial statements in accordance with PFRS, and should be read in conjunction with the 2017 audited consolidated financial statements of SMFB. The audited consolidated financial statements are available upon request from the Group's registered office at the 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City.

The condensed consolidated interim financial statements were approved and authorized for issue in accordance with a resolution by the BOD on August 8, 2018.

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

	Percentage of Ownership 2018	Percentage of Ownership 2017	Country of Incorporation
Food			
San Miguel Mills, Inc. and subsidiaries [including Golden Bay Grain Terminal Corporation and Golden Avenue Corp.]	**100.00**	100.00	Philippines
Magnolia, Inc. and subsidiaries [including Sugarland Corporation and Golden Food & Dairy Creamery Corporation (GFDCC)]	**100.00**	100.00	Philippines
San Miguel Foods, Inc. (SMFI) and subsidiary, Foodcrave Marketing, Inc.	**99.99**	99.99	Philippines
PT San Miguel Pure Foods Indonesia (PTSMPFI)	**75.00**	75.00	Indonesia
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	**70.00**	70.00	Philippines
The Purefoods-Hormel Company, Inc. (PF-Hormel)	**60.00**	60.00	Philippines
RealSnacks Mfg. Corp.	**100.00**	100.00	Philippines
San Miguel Pure Foods International, Limited and subsidiary [including San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd. (formerly San Miguel Hormel (VN) Co., Ltd.)]	**100.00**	100.00	British Virgin Islands (BVI)
Beer and NAB			
San Miguel Brewery Inc. and Subsidiaries	**51.16**	51.16	Philippines
San Miguel Brewing International Limited and subsidiaries [including Neptunia Corporation Limited and subsidiaries {including San Miguel Brewery Hong Kong Limited and subsidiaries (including San Miguel (Guangdong) Limited and subsidiary, Guangzhou San Miguel Brewery Company, Limited, and San Miguel Shunde Holdings Limited and subsidiary, San Miguel (Guangdong) Brewery Company, Limited)}, San Miguel (China) Investment Company, Limited, San Miguel (Baoding) Brewery Company Limited, San Miguel Holdings (Thailand) Limited and subsidiary, San Miguel Beer (Thailand) Limited, San Miguel Marketing (Thailand) Limited, Dragon Island Investments Limited, San Miguel (Vietnam) Limited, San Miguel Brewery Vietnam Company, Limited, and San Miguel Malaysia Pte. Ltd. and subsidiary, PT. Delta Djakarta Tbk. and subsidiary]			
Iconic Beverages, Inc. (IBI)			
Brewery Properties Inc. (BPI) and subsidiary			
Spirits			
Ginebra San Miguel Inc. and Subsidiaries, including:	**67.99**	67.99	Philippines
Distileria Bago, Inc.			
East Pacific Star Bottlers Phils Inc. (EPSBPI)			
Ginebra San Miguel International Ltd.			
GSM International Holdings Limited			
Global Beverages Holdings Limited			
Siam Holdings Limited			

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the condensed consolidated interim statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: SMFI, PTSMPFI, SMSCCI, PF-Hormel, SMB and GSMI (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The Group prepared its condensed consolidated interim financial statements as at and for the period ended June 30, 2018 and comparative financial statements for the same period in 2017 following the presentation rules under PAS 34, *Interim Financial Reporting*.

The principal accounting policies and methods adopted in preparing the condensed consolidated interim 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 interpretation as part of PFRS.

New and Amended Standards and Interpretation Adopted in 2018

The Group has adopted the following PFRS starting January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2014 — 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates,* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

- PFRS 9 (2014), *Financial Instruments,* replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables amounting to ₱144 and increase in retained earnings and non-controlling interests as at January 1, 2018 by ₱51 and ₱49, respectively.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as at January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as at January 1, 2018 relates solely to the new impairment requirements.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	₱35,540	₱35,540
Trade and other receivables — net	Loans and receivables	Financial assets at amortized cost	18,237	18,381
Derivative assets	Financial assets at FVPL	Financial assets at FVPL	61	61
Investments in equity instruments	AFS financial assets	Financial assets at fair value through other comprehensive income (FVOCI)	53	53
Noncurrent receivables and deposits — net	Loans and receivables	Financial assets at amortized cost	574	574

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards: The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method; (b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in the consolidated statements of income.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The adoption of the new standard has no significant impact on the condensed consolidated interim financial statements of the Group.

  The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

  Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration such as right of return, trade discounts and volume rebates.

- Transfers of Investment Property *(Amendments to PAS 40, Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

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

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the condensed consolidated interim financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the condensed consolidated interim financial statements.

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

- PFRS 16, *Leases*, replaces PAS 17, *Leases, IFRIC 4, Determining Whether an Arrangement Contains a Lease*, SIC 15, *Operating Leases — Incentives*, and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard introduces a single, on-balance sheet lease accounting model for lessees. Under this model, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments and, subsequently, depreciates the right-of-use asset and recognizes interest on the lease liabilities in profit or loss. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessor is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessor, however, discloses more information in the financial statements, particularly on the risks related to residual values of assets under the lease.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Group is currently performing detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as at January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments,* 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 Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's 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.

  The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

  The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy (BOA).

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

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

- Prepayment Features with Negative Compensation *(Amendments to PFRS 9)*. The amendments cover the following areas: (a) Prepayment features with negative compensation. 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 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 that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset — i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- Long-term Interests (LTI) in Associates and Joint Ventures *(Amendments to PAS 28)*. The amendment requires 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. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Plan Amendment, Curtailment or Settlement *(Amendments to PAS 19, Employee Benefits)*. The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) 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.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

  The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

  - Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three 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.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- 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.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- 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.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

  The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Amendments to References to the Conceptual Framework in IFRS Standards.* The amendments introduce the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in other comprehensive income; (c) guidance on the recognition and derecognition of assets and liabilities in the consolidated financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the condensed consolidated interim statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the condensed consolidated interim statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the condensed consolidated interim statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018

Financial Assets

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

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

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 whose objective is to hold 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.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

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

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

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

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

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

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

Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the condensed consolidated interim statement of changes in equity are never reclassified to profit or loss.

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

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes all derivative financial assets. 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, a financial asset may be irrevocably designated 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 profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. 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 is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

Accounting Policies for the Classification and Measurement of Financial Assets Applicable before January 1, 2018

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the condensed consolidated interim statements of income as incurred. Fair value changes and realized gains or losses are recognized in the condensed consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and in equity. Any interest earned is recognized as part of "Interest income" account in the condensed consolidated interim statements of income. Any dividend income from equity securities classified as at FVPL is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the condensed consolidated interim statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the condensed consolidated interim statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

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

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the condensed consolidated interim statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the condensed consolidated interim statements of changes in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity securities 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. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. 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 profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of income.

The Group's derivative liabilities 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 rate 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 condensed consolidated interim statements of income. Gains and losses are recognized in the condensed consolidated interim statements of income when the liabilities are derecognized as well as through the amortization process.

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the condensed consolidated interim statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the condensed consolidated interim statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as at June 30 and March 31, 2018 and December 31, 2017.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in equity. The ineffective portion is immediately recognized in the condensed consolidated interim statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the condensed consolidated interim statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the condensed consolidated interim statements of changes in equity are transferred to the condensed consolidated interim statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the condensed consolidated interim statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the condensed consolidated interim statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the condensed consolidated interim statements of changes in equity is recognized in the condensed consolidated interim statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as at June 30 and March 31, 2018 and December 31, 2017.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the condensed consolidated interim statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the condensed consolidated interim statements of changes in equity is transferred to and recognized in the condensed consolidated interim statements of income.

The Group has no hedge of a net investment in a foreign operation as at June 30 and March 31, 2018 and December 31, 2017.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the condensed consolidated interim 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.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

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

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

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.

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 canceled, 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 condensed consolidated interim statements of income.

Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, 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 expected credit losses, 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 expected credit losses 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.

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.

Accounting Policies for the Impairment of Financial Assets Applicable before January 1, 2018

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the condensed consolidated interim statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the condensed consolidated interim statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial assets is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the condensed consolidated interim statements of changes in equity, is transferred from other comprehensive income and recognized in the condensed consolidated interim statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the condensed consolidated interim statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the condensed consolidated interim statements of income, the impairment loss is reversed through the condensed consolidated interim statements of income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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.

Debt Issue Costs

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 rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the condensed consolidated interim statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the condensed consolidated interim 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.

Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

The following are the Group's additional accounting policies as a result of consolidation of SMB and GSMI as discussed in Notes 1 and 5 of the condensed consolidated interim financial statements:

Inventories

Finished goods, goods in process, materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	—	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Materials and supplies	—	at cost, using the moving-average method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Materials and Supplies. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Containers (i.e., Returnable Bottles, Shells and Pallets). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers" under "Other noncurrent assets" account in the condensed consolidated interim statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the condensed consolidated interim statements of income.

Investments in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of a joint venture is recognized as "Equity in net losses of joint ventures" account in the condensed consolidated interim statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the joint venture arising from changes in the joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of joint ventures" account in the condensed consolidated interim statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in joint venture and then recognizes the loss as part of "Equity in net losses of joint ventures" account in the condensed consolidated interim statements of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in a joint venture upon loss of joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the condensed consolidated interim statements of income.

The financial statements of the joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	2 - 50
Furniture, other equipment and others	2 - 20
Leasehold improvements	3 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the condensed consolidated interim statements of income in the period of retirement and disposal.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the condensed consolidated interim statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the condensed consolidated interim statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the condensed consolidated interim statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Land use rights	42 -50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of some licenses, trademarks and brand names, formulas and recipes, and franchise to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the condensed consolidated interim statements of income when the asset is derecognized.

Fair Value Measurements

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

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

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

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

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

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

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

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

4. Use of Judgments, Estimates and Assumptions

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2017 audited consolidated financial statements, except for the following judgments as a result of the consolidation of SMB and GSMI as follows:

Evaluating Control over its Investee. Determining whether the Group has control in an investee requires significant judgment. Although SMB owns less than 50% of the voting rights of BPI, management has determined that SMB controls this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee.

SMB receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. SMB controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

5. Business Combination under Common Control

As discussed in Note 1, the acquisition of SMB and GSMI by SMFB is considered to be a business combination of entities under common control as they are all under the common control of SMC before and after the acquisition.

The Group recognized the assets acquired and liabilities assumed at their carrying amounts in the consolidated financial statements of SMC. The carrying amounts in the consolidated financial statements of SMC are based on the fair values of assets and liabilities as of the date SMB and GSMI became subsidiaries of SMC and adjusted for subsequent transactions. Any goodwill relating to SMB and GSMI recognized in the consolidated financial statements of SMC is also recognized. The difference between the consideration paid or transferred and the net assets acquired is recognized under "Equity adjustments from common control transactions" account in the condensed consolidated interim statements of changes in equity.

The consolidated financial statements as at and for the year ended December 31, 2017 were restated as if the entities had been combined for the period that the entities were under common control.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — (Continued)

The restated amounts in the condensed consolidated interim statement of financial position as at December 31, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control							
	Consolidated Statement of Financial Position of SMFB, As Reported	Consolidated Statement of Financial Position of SMB	Consolidated Statement of Financial Position of GSMI	Share Swap Transaction (a)	Elimination of Investments in SMB and GSMI (b)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Financial Position of SMFB, As Restated
ASSETS								
Current Assets								
Cash and cash equivalents	₱ 7,044	₱ 28,297	₱ 199	₱ —	₱ —	₱ —	₱ —	₱ 35,540
Trade and other receivables — net	11,573	4,995	1,715	—	—	(46)	—	18,237
Inventories	21,002	4,032	3,324	—	—	—	—	28,358
Current portion of biological assets — net	3,422	—	—	—	—	—	—	3,422
Prepaid expenses and other current assets	1,823	1,629	1,420	—	—	—	—	4,872
Total Current Assets	44,864	38,953	6,658	—	—	(46)	—	90,429
Noncurrent Assets								
Investments	—	41	346	336,349	(336,349)	—	12	399
Property, plant and equipment — net	27,412	18,732	4,998	—	—	(17)	—	51,125
Investment property — net	777	1,323	—	—	—	—	—	2,100
Biological assets — net of current portion	2,695	—	—	—	—	—	—	2,695
Goodwill — net	—	—	127	—	692	—	177	996
Other intangible assets — net	4,116	36,808	—	—	—	—	(138)	40,786
Deferred tax assets	801	1,317	673	—	—	—	—	2,791
Other noncurrent assets — net	1,209	12,109	515	—	—	—	(51)	13,782
Total Noncurrent Assets	37,010	70,330	6,659	336,349	(335,657)	(17)	—	114,674
	₱ 81,874	₱109,283	₱13,317	₱336,349	₱(335,657)	₱(63)	₱ —	₱ 205,103

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — (Continued)

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control						
	Consolidated Statement of Financial Position of SMFB, As Reported	Consolidated Statement of Financial Position of SMB	Consolidated Statement of Financial Position of GSMI	Share Swap Transaction (a)	Elimination of Investments in SMB and GSMI (b)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Financial Position of SMFB, As Restated
LIABILITIES AND EQUITY								
Current Liabilities								
Notes payable	₱ 8,407	₱ —	₱ 5,532	₱ —	₱ —	₱ —	₱ —	₱ 13,939
Trade payables and other current liabilities	23,837	9,032	2,010	—	—	(46)	(1,224)	33,609
Income and other taxes payable	745	3,685	110	—	—	—	1,194	5,734
Dividends payable	—	—	—	—	—	—	30	30
Current maturities of long-term debt — net of debt issue costs	—	—	114	—	—	—	—	114
Total Current Liabilities	32,989	12,717	7,766	—	—	(46)	—	53,426
Noncurrent Liabilities								
Long-term debt — net of current maturities and debt issue costs	—	34,665	—	—	—	—	—	34,665
Deferred tax liabilities	27	26	—	—	—	—	—	53
Other noncurrent liabilities	710	1,091	537	—	—	—	—	2,338
Total Noncurrent Liabilities	737	35,782	537	—	—	—	—	37,056
Equity								
Equity attributable to equity holders of the Parent Company								
Capital stock	₱ 2,009	₱ 15,410	₱ 399	₱ 4,242	₱ (15,809)	₱ —	₱ —	₱ 6,251
Additional paid-in capital	35,235	515	2,539	332,107	(3,054)	—	—	367,342
Equity adjustments from common control transactions	—	—	—	—	(328,273)	—	—	(328,273)
Other equity reserves	(281)	(1,481)	(395)	—	373	—	—	(1,784)
Retained earnings:						—	—	
Appropriated	2,999	15,010	2,500	—	(8,131)	—	—	12,378
Unappropriated	21,125	29,076	2,641	—	(14,884)	(8)	—	37,950
Treasury stock	(15,182)	(1,029)	(2,670)	—	3,699	—	—	(15,182)
	45,905	57,501	5,014	336,349	(366,079)	(8)	—	78,682
Non-controlling interests	2,243	3,283	—	—	30,422	(9)	—	35,939
Total Equity	48,148	60,784	5,014	336,349	(335,657)	(17)	—	114,621
	₱ 81,874	₱109,283	₱13,317	₱336,349	₱(335,657)	₱(63)	₱ —	₱ 205,103

The restated amounts in the condensed consolidated interim statement of income for the six months ended June 30, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control					
	Consolidated Statement of Income of SMFB, As Reported	Consolidated Statement of Income of SMB	Consolidated Statement of Income of GSMI	Share of Non-controlling Interests in Net Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Income of SMFB, As Restated
Sales	₱55,947	₱53,060	₱10,124	₱ —	₱ (1)	₱—	₱119,130
Cost of sales	42,703	29,880	7,570	—	(1)	—	80,152
Gross profit	13,244	23,180	2,554	—	—	—	38,978
Selling and administrative expenses	(8,784)	(9,140)	(2,003)	—	4	—	(19,923)
Interest expense and other financing charges	(55)	(1,165)	(152)	—	—	—	(1,372)
Interest income	58	247	12	—	—	—	317
Equity in net losses of joint ventures	—	—	(41)	—	—	—	(41)
Gain on sale of investments and property and equipment	7	—	—	—	—	5	12
Other income (charges) — net	(82)	99	30	—	—	(5)	42
Income before income tax	4,388	13,221	400	—	4	—	18,013
Income tax expense	1,248	3,825	135	—	—	—	5,208
Net Income	₱ 3,140	₱ 9,396	₱ 265	₱ —	₱ 4	₱—	₱ 12,805
Attributable to:							
Equity holders of the Parent Company	₱ 3,043	₱ 9,194	₱ 265	₱(4,575)	₱ 2	₱—	₱ 7,929
Non-controlling interests	97	202	—	4,575	2	—	4,876
	₱ 3,140	₱ 9,396	₱ 265	₱ —	₱ 4	₱—	₱ 12,805

The restated amounts in the consolidated statement of comprehensive income for the six months ended June 30, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control				
	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Consolidated Statement of Comprehensive Income of SMB	Consolidated Statement of Comprehensive Income of GSMI	Share of Non-controlling Interests in Total Comprehensive Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Consolidated Statement of Comprehensive Income of SMFB, As Restated
Net income	₱3,140	₱9,396	₱265	₱ —	₱ 4	₱12,805
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement gain on reserve for retirement plan	—	10	—	—	—	10
Share in other comprehensive income of joint ventures	—	—	42	—	—	42
	—	10	42	—	—	52
Items that may be reclassified to profit or loss						
Gain on exchange differences on translation of foreign operations	1	527	—	—	—	528
Net loss on available-for-sale financial assets	(1)	—	—	—	—	(1)
	—	527	—	—	—	527
Other comprehensive income — net of tax	—	537	42	—	—	579
Total comprehensive income — net of tax	₱3,140	₱9,933	₱307	₱ —	₱ 4	₱13,384
Attributable to:						
Equity holders of the Parent Company	₱3,043	₱9,735	₱307	₱(4,852)	₱ 2	₱ 8,235
Non-controlling interests	97	198	—	4,852	2	5,149
	₱3,140	₱9,933	₱307	₱ —	₱ 4	₱13,384

The restated amounts in the condensed consolidated interim statement of income for the quarter ended June 30, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control					
	Consolidated Statement of Income of SMFB, As Reported	Consolidated Statement of Income of SMB	Consolidated Statement of Income of GSMI	Share of Non-controlling Interests in Net Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Income of SMFB, As Restated
Sales	₱29,286	₱27,696	₱4,988	₱ —	₱ (1)	₱—	₱ 61,969
Cost of sales	22,206	15,598	3,756	—	(1)	—	41,559
Gross profit	7,080	12,098	1,232	—	—	—	20,410
Selling and administrative expenses	(4,689)	(4,735)	(965)	—	2	—	(10,387)
Interest expense and other financing charges	(28)	(560)	(75)	—	—	—	(663)
Interest income	31	121	5	—	—	—	157
Equity in net losses of joint ventures	—	—	(19)	—	—	—	(19)
Gain on sale of investments and property and equipment	2	—	—	—	—	3	5
Other income (charges) — net	(32)	31	25	—	—	(3)	21
Income before income tax	2,364	6,955	203	—	2	—	9,524
Income tax expense	689	2,050	68	—	—	—	2,807
Net income	₱ 1,675	₱ 4,905	₱ 135	₱ —	₱ 2	₱—	₱ 6,717
Attributable to:							
Equity holders of the Parent Company	₱ 1,617	₱ 4,824	₱ 135	₱(2,399)	₱ 1	₱—	₱ 4,178
Non-controlling interests	58	81	—	2,399	1	—	2,539
	₱ 1,675	₱ 4,905	₱ 135	₱ —	₱ 2	₱—	₱ 6,717

The restated amounts in the consolidated statement of comprehensive income for the quarter ended June 30, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control				
	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Consolidated Statement of Comprehensive Income of SMB	Consolidated Statement of Comprehensive Income of GSMI	Share of Non-controlling Interests in Total Comprehensive Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Consolidated Statement of Comprehensive Income of SMFB, As Restated
Net income	₱1,675	₱4,905	₱135	₱ —	₱ 2	₱6,717
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement gain on reserve for retirement plan	—	12	—	—	—	12
Share in other comprehensive income of joint ventures	—	—	11	—	—	11
	—	12	11	—	—	23
Items that may be reclassified to profit or loss						
Gain on exchange differences on translation of foreign operations	1	194	—	—	—	195
Net loss on available-for-sale financial assets	(1)	—	—	—	—	(1)
	—	194	—	—	—	194
Other comprehensive income — net of tax	—	206	11	—	—	217
Total comprehensive income — net of tax	₱1,675	₱5,111	₱146	₱ —	₱ 2	₱6,934
Attributable to:						
Equity holders of the Parent Company	₱1,617	₱5,027	₱146	₱(2,500)	₱ 1	₱4,291
Non-controlling interests	58	84	—	₱ 2,500	1	2,643
	₱1,675	₱5,111	₱146	₱ —	₱ 2	₱6,934

The restated amounts in the consolidated statement of cash flows for the six months ended June 30, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

	Consolidated Statement of Cash flows of SMFB, As Reported	Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control			Consolidated Statement of Cash flows of SMFB, As Restated
		Consolidated Statement of Cash flows of SMB	Consolidated Statement of Cash flows of GSMI	Reclassification (d)	
Net cash flows provided by operating activities	₱ 9,102	₱11,909	₱ 546	₱ 32	₱ 21,589
Net cash flows used in investing activities	(6,411)	(1,606)	(68)	(189)	(8,274)
Net cash flows provided by (used in) financing activities	(1,909)	(8,768)	(1,059)	157	(11,579)
Effect of exchange rate changes in cash and cash equivalents	(1)	100	—	—	99
Net increase in cash and cash equivalents	781	1,635	(581)	—	1,835
Cash and cash equivalents at beginning of period	7,540	22,015	777	—	30,332
Cash and cash equivalents at end of period	₱ 8,321	₱23,650	₱ 196	₱ —	₱ 32,167

Adjustments from the retrospective application of business combination under common control follow:

a. *Share Swap Transaction*

Represents the issuance of 4,242,549,130 new common shares with a par value of ₱1.00 to SMC as consideration for the acquisition by SMFB under a Share Swap Transaction of SMC's investments in 7,859,319,270 common shares of SMB and 216,972,000 common shares of GSMI.

The details of the share swap transaction follow:

	Percentage of Ownership	Amount
Transfer value as approved by SEC (Note 1):		
SMB	51.16%	₱325,218
GSMI*	67.99%	11,131
		336,349
Par value of the shares issued by SMFB		4,242
Additional paid-in capital of SMFB		₱332,107

* The percentage ownership of GSMI represents percentage ownership of the total outstanding common and preferred shares.

Related transaction costs from the share swap transaction paid and incurred in 2018 amounting to ₱722 is deducted against additional paid-in capital as at June 30, 2018. Transaction costs is composed of fees for the increase in the authorized capital stock, documentary stamp tax (DST) for the issuance of shares and other filing fees.

b. Elimination of investments in SMB and GSMI

i. Details of the elimination of investments in GSMI and SMB follow:

	SMB	GSMI	Total
Equity Attributable to Equity Holders of the Parent Company:			
Capital stock*	₱ 15,410	₱ 399	₱ 15,809
Additional paid-in capital	515	2,539	3,054
Equity adjustments from common control transactions	317,359	10,914	328,273
Other equity reserves	(246)	(127)	(373)
Retained earnings:			
Appropriated	7,331	800	8,131
Unappropriated	13,961	923	14,884
Treasury stock**	(1,029)	(2,670)	(3,699)
Non-controlling interests	(28,083)	(2,339)	(30,422)
Goodwill recognized at SMC level	—	692	692
	325,218	11,131	336,349
Transfer value	325,218	11,131	336,349
	₱ —	₱ —	₱ —

* *Capital stock consists of common shares of SMB amounting to ₱15,410 and common shares and preferred shares of GSMI amounting to ₱346 and ₱53, respectively.*

** *Treasury shares consists of common shares of SMB amounting to ₱1,029 and common shares and preferred shares of GSMI amounting to ₱1,947 and ₱723, respectively.*

Equity adjustments from common control transactions

This account represents the excess of transfer value over the net assets of SMB and GSMI attributable to SMC. Details are as follows:

	SMB	GSMI	Total
Transfer value	₱325,218	₱11,131	₱336,349
Net assets acquired	7,859	217	8,076
Equity adjustments from common control transactions	₱317,359	₱10,914	₱328,273

Adjustments to non-controlling interests are composed of the following:

	SMB	GSMI	Total
Share of non-controlling interests in equity	₱28,083	₱1,339	₱29,422
Cost of preferred shares	—	1,000	1,000
Total	₱28,083	₱2,339	₱30,422

The holders of preferred shares are entitled to participate and receive annual dividends of ₱1.50 per share which may be cumulative and payable in arrears on December 31 of each year. In addition, the holders of preferred shares may receive a special annual dividend equal to the excess of the aggregate dividends paid or to be paid to common shareholders over ₱1.50 per preferred share per annum. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Cumulative dividends in arrears as at December 31, 2017 amounted to ₱294.

c. *Elimination of intercompany transactions*

i. Intercompany receivable and payable as at December 31, 2017 have been eliminated as follows:

	2017
Statement of Financial Position	
Trade and other receivables — net	₱(46)
Trade payables and other current liabilities	46

ii. SMB acquired the assets of GSMI used in its NAB business under a deed of sale for the property and equipment used in the NAB business (NAB PPE) executed on April 1, 2015 (as amended on April 30, 2015) and a deed of sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials used in the NAB business executed on April 30, 2015.

The elimination of the sale of NAB business by GSMI to SMB for the year ended December 31, 2017 follows:

	2017
Statement of Financial Position	
Property, plant and equipment — net	₱(17)
Unappropriated retained earnings	8
Non-controlling interests	9

iii. The share of non-controlling interests in net income of SMB and GSMI is computed as follows:

	For the Six Months Ended June 30, 2017			For the Quarter Ended June 30, 2017		
	SMB	GSMI	Total	SMB	GSMI	Total
Net income	₱9,194	₱ 265	₱9,459	₱4,824	₱ 135	₱4,959
Non-controlling interests ownership	48.84%	32.01%	—	48.84%	32.01%	—
Share of non-controlling interests in net income	₱4,490	₱ 85	₱4,575	₱2,356	₱ 43	₱2,399

iv. Intercompany sale transactions have been eliminated as follows:

	For the Six Months Ended June 30, 2017	For the Quarter Ended June 30, 2017
Statement of Income Sales	₱(1)	₱(1)
Cost of sales	(1)	(1)
Selling and administrative expenses	4	2
Non-controlling interests	2	1

v. The share of non-controlling interests in other comprehensive income of SMB and GSMI is computed as follows:

	For the Six Months Ended June 30, 2017			For the Quarter Ended June 30, 2017		
	SMB	GSMI	Total	SMB	GSMI	Total
Other comprehensive income	₱ 537	₱ 42	₱579	₱ 206	₱ 11	₱217
Share of non-controlling interests of SMB	4	—	4	(3)	—	(3)
	541	42	583	203	11	214
Non-controlling interests ownership	48.84%	32.01%	—	48.84%	32.01%	—
Share of non-controlling interests in other comprehensive income	₱ 264	₱ 13	₱277	₱ 98	₱ 3	₱101

d. Certain accounts in the consolidated SMFB, SMB and GSMI were reclassified for consistency of financial statements presentation. These reclassifications had no effect on the reported financial performance for any period presented.

The details of the Group's material non-controlling interests as a result of the consolidation of SMB and GSMI are as follows:

	June 30, 2018		December 31, 2017	
	SMB	GSMI	SMB	GSMI
Percentage of non-controlling interests	**48.84%**	**32.01%**	48.84%	32.01%
Carrying amount of non-controlling interests	**₱34,522**	**₱2,507**	₱31,358	₱2,338
Net income attributable to non-controlling interests	**₱ 5,884**	**₱ 162**	₱10,391	₱ 193
Other comprehensive income attributable to non-controlling interests	**₱ 577**	**₱ 5**	₱ 246	₱ (7)
Dividends paid to non-controlling interests	**₱ 3,344**	**₱ —**	₱ 5,639	₱ —

The following are the financial information of SMB and GSMI:

	June 30, 2018		December 31, 2017	
	SMB	GSMI	SMB	GSMI
Current assets	**₱ 42,273**	**₱ 6,989**	₱ 38,953	₱ 6,658
Noncurrent assets	**73,540**	**6,399**	70,330	6,659
Current liabilities	**(25,546)**	**(7,381)**	(12,717)	(7,766)
Noncurrent liabilities	**(23,006)**	**(471)**	(35,782)	(537)
Net assets	**₱ 67,261**	**₱ 5,536**	₱ 60,784	₱ 5,014
Sales	**₱ 62,510**	**₱12,046**	₱113,255	₱20,892
Net income	**₱ 11,799**	**₱ 506**	₱ 20,711	₱ 602
Other comprehensive income (loss)	**1,065**	**16**	613	(19)
Total comprehensive income	**₱ 12,864**	**₱ 522**	₱ 21,324	₱ 583
Cash flows provided by operating activities	**₱ 12,868**	**₱ 1,647**	₱ 26,601	₱ 2,502
Cash flows used in investing activities	**(4,410)**	**(120)**	(6,047)	(217)
Cash flows used in financing activities	**(6,484)**	**(1,415)**	(14,299)	(2,863)
Effect of exchange rate changes on cash and cash equivalents	**585**	**1**	27	—
Net increase (decrease) in cash and cash equivalents	**₱ 2,559**	**₱ 113**	₱ 6,282	₱ (578)

6. Segment Information

Operating Segments

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

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

The Beer and NAB segment is engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets.

The Spirits segment is engaged in the production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants which are available nationwide, while some are exported to select countries.

The Food segment is engaged in (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products; (ii) the production and sale of feeds; (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats; and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of trade payables and other current liabilities, and other noncurrent liabilities, excluding interest and dividends payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in the condensed consolidated interim financial statements.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Financial information about reportable segments for the six months ended June 30, 2018 and June 30, 2017 (as restated) follows:

	Beer and NAB		Spirits		Food		Total Reportable Segments		Eliminations		Consolidated	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sales												
External sales	**₱62,509**	₱53,060	**₱12,046**	₱10,123	**₱62,886**	₱55,947	**₱137,441**	₱119,130	**₱—**	₱—	**₱137,441**	₱119,130
Inter-segment sales	**1**	—	**—**	1	**—**	—	**1**	1	**(1)**	(1)	**—**	—
Total sales	**₱62,510**	₱53,060	**₱12,046**	₱10,124	**₱62,886**	₱55,947	**₱137,442**	119,131	**₱(1)**	₱(1)	**₱137,441**	₱119,130
Results												
Segment results*	**₱17,311**	₱14,040	**₱ 862**	₱ 551	**₱ 4,712**	₱ 4,460	**₱ 22,885**	₱ 19,051	**₱ 4**	₱ 4	**₱ 22,889**	₱ 19,055

* Gross profit less selling and administrative expenses.

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments for the six months ended June 30, 2018 and June 30, 2017 (as restated):

	Beer and NAB		Spirits		Food		Consolidated	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Timing of Revenue Recognition								
Sales recognized at point in time	**₱62,509**	₱53,060	**₱12,017**	₱10,097	**₱62,852**	₱55,925	**₱137,378**	₱119,082
Sales recognized over time	**—**	—	**29**	26	**34**	22	**63**	48
Total external sales	**₱62,509**	₱53,060	**₱12,046**	₱10,123	**₱62,886**	₱55,947	**₱137,441**	₱119,130

Other information on the Group's operating segments as at June 30, 2018 and December 31, 2017 (as restated) follow:

	Beer and NAB		Spirits		Food		Total Reportable Segments		Eliminations		Consolidated	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Segment assets	**₱80,766**	₱74,321	**₱12,287**	₱12,169	**₱77,426**	₱77,107	**₱170,479**	₱163,597	**₱(23)**	₱(63)	**₱170,456**	₱163,534
Segment liabilities	**₱ 9,474**	₱ 9,559	**₱ 3,230**	₱ 2,530	**₱22,758**	₱23,330	**₱ 35,462**	₱ 35,419	**₱(10)**	₱(46)	**₱ 35,452**	₱ 35,373
Capital expenditures	**₱ 1,241**	₱ 1,747	**₱ 121**	₱ 217	**₱ 3,888**	₱10,890	**₱ 5,250**	₱ 12,854	**₱ —**	₱ —	**₱ 5,250**	₱ 12,854

7. Inventories

Inventories consist of:

	June 30 2018	December 31 2017 As Restated (Note 5)
At net realizable value:		
Finished goods and goods in process	**₱ 8,517**	₱ 7,005
Materials and supplies	**20,431**	19,833
Containers	**1,984**	1,520
	₱30,932	₱28,358

The cost of inventories are as follows:

	June 30 2018	December 31 2017 As Restated (Note 5)
Finished goods and goods in process	**₱ 8,707**	₱ 7,195
Materials and supplies	**20,932**	20,339
Containers	**2,392**	1,932
	₱32,031	₱29,466

The movements in the allowance for write-down of inventories to net realizable value for the six months ended June 30, 2018 and for the year ended December 31, 2018 are as follows:

	June 30 2018	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**₱1,108**	₱ 844
Write-down for the period	**531**	697
Reversal	**—**	1
Amounts written off	**(540)**	(436)
Cumulative translation adjustments and others	**—**	2
Balance at end of period	**₱1,099**	₱1,108

The cost of inventories used recognized under "Cost of sales" account in the condensed consolidated interim statements of income amounted to ₱53,456 and ₱46,465 for the six months ended June 30, 2018 and 2017, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of the finished goods inventory, amounted to ₱736 and ₱442 as at June 30, 2018 and December 31, 2017, respectively, with corresponding costs at point of harvest amounting to ₱635 and ₱405, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to ₱101 and ₱72 for the six months ended June 30, 2018 and 2017, respectively.

The fair values of marketable hogs and cattle and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease).

8. Property, Plant and Equipment

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

June 30, 2018 and December 31, 2017

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost							
January 1, 2017	₱11,752	₱20,269	₱59,100	₱3,395	₱748	₱ 7,980	₱103,244
Additions	699	287	1,566	432	35	9,835	12,854
Disposals/reclassifications	8	(18)	(519)	(431)	15	(175)	(1,120)
Currency translation adjustments	98	300	876	15	1	1	1,291
December 31, 2017	12,557	20,838	61,023	3,411	799	17,641	116,269
Additions	223	194	1,247	139	20	3,427	5,250
Disposals/reclassifications	(234)	(9)	(36)	147	—	193	61
Currency translation adjustments	57	467	1,110	28	2	1	1,665
June 30, 2018	**12,603**	**21,490**	**63,344**	**3,725**	**821**	**21,262**	**123,245**
Accumulated Depreciation and Amortization							
January 1, 2017	559	8,509	38,501	2,715	344	—	50,628
Depreciation and amortization	21	579	1,884	222	44	—	2,750
Disposals/reclassifications	—	(46)	(563)	(225)	2	—	(832)
Currency translation adjustments	—	93	419	11	1	—	524
December 31, 2017	580	9,135	40,241	2,723	391	—	53,070
Depreciation and amortization	11	289	1,002	120	26	—	1,448
Disposals/reclassifications	—	(6)	(112)	96	—	—	(22)
Currency translation adjustments	—	171	517	21	2	—	711
June 30, 2018	**591**	**9,589**	**41,648**	**2,960**	**419**	**—**	**55,207**

Forward

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — (Continued)

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses							
January 1, 2017	₱ —	₱ 2,410	₱ 8,560	₱ 63	₱ —	₱ —	₱ 11,033
Additions	—	127	407	—	—	—	534
Disposals/reclassifications	—		(21)	(1)	1	—	(21)
Currency translation adjustments	—	164	363	1	—	—	528
December 31, 2017	—	2,701	9,309	63	1	—	12,074
Disposals/reclassifications	—	(17)	17	10	—	—	10
Currency translation adjustments	—	148	518	4	—	—	670
June 30, 2018	**—**	**2,832**	**9,844**	**77**	**1**	**—**	**12,754**
Carrying Amount							
December 31, 2017 (As Restated — Note 5)	₱11,977	₱ 9,002	₱11,473	₱ 625	₱407	₱17,641	₱ 51,125
June 30, 2018	**₱12,012**	**₱ 9,069**	**₱11,852**	**₱ 688**	**₱401**	**₱21,262**	**₱ 55,284**

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — (Continued)

June 30, 2017

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost							
January 1, 2017	₱11,752	₱20,269	₱59,100	₱3,395	₱748	₱ 7,980	₱103,244
Additions	11	144	496	48	5	4,837	5,541
Disposals/reclassifications	6	4	(119)	(128)	6	(75)	(306)
Currency translation adjustments	69	226	625	15	—	2	937
June 30, 2017	11,838	20,643	60,102	3,330	759	12,744	109,416
Accumulated Depreciation and Amortization							
January 1, 2017	559	8,509	38,501	2,715	344	—	50,628
Depreciation and amortization	11	286	930	112	21	—	1,360
Disposals/reclassifications	—	(8)	(165)	(133)	—	—	(306)
Currency translation adjustments	—	78	317	11	—	—	406
June 30, 2017	570	8,865	39,583	2,705	365	—	52,088
Accumulated Impairment Losses							
January 1, 2017	₱ —	₱ 2,410	₱ 8,560	₱ 63	₱ —	₱ —	₱ 11,033
Disposals/reclassifications	—	—	(1)	1	—	—	—
Currency translation adjustments	—	97	246	1	1	—	345
June 30, 2017	—	2,507	8,805	65	1	—	11,378
Carrying Amount							
June 30, 2017	₱11,268	₱ 9,271	₱11,714	₱ 560	₱393	₱12,744	₱ 45,950

Depreciation and amortization recognized in the condensed consolidated interim statements of income amounted to ₱1,448 and ₱1,360 for the six months ended June 30, 2018 and 2017, respectively. These amounts include amortization of capitalized interest amounting to ₱8 and ₱7 for the six months ended June 30, 2018 and 2017, respectively.

In 2017, the Group incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecast sales. These factors, among others, are indications that noncurrent assets of SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired. Impairment loss recognized in 2017 relating to the production plant amounted to ₱534.

9. Investment Property

The movements and balances of investment property are as follows:

June 30, 2018 and December 31, 2017

	Land and Land Improvements	Buildings and Improvements	Total
Cost			
January 1, 2017	₱2,266	₱725	₱2,991
Additions	105	—	105
Reclassifications	(650)	—	(650)
Currency translation adjustments	(2)	(3)	(5)
December 31, 2017	1,719	722	2,441
Additions	4	—	4
Currency translation adjustments	1	45	46
June 30, 2018	**1,724**	**767**	**2,491**
Accumulated Depreciation and Amortization			
January 1, 2017	184	319	503
Depreciation and amortization	—	15	15
Reclassifications	(183)	—	(183)
Currency translation adjustments	(1)	(1)	(2)
December 31, 2017	—	333	333
Depreciation and amortization	—	9	9
Currency translation adjustments	—	21	21
June 30, 2018	**—**	**363**	**363**
Accumulated Impairment Losses			
June 30, 2018 and December 31, 2017	**8**	**—**	**8**
Carrying Amount			
December 31, 2017 (As Restated — Note 5)	₱1,711	₱389	₱2,100
June 30, 2018	**₱1,716**	**₱404**	**₱2,120**

June 30, 2017

	Land and Land Improvements	Buildings and Improvements	Total
Cost			
January 1, 2017	₱2,266	₱725	₱2,991
Currency translation adjustments	6	6	12
June 30, 2017	2,272	731	3,003
Accumulated Depreciation and Amortization			
January 1, 2017	184	319	503
Depreciation and amortization	8	7	15
Currency translation adjustments	1	3	4
June 30, 2017	193	329	522
Accumulated Impairment Losses			
June 30, 2017	8	—	8
Carrying Amount			
June 30, 2017	₱2,071	₱402	₱2,473

No impairment loss was recognized in 2018 and 2017.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2018 and 2017.

The fair value of investment property amounting to ₱4,367 and ₱3,903 as at June 30, 2018 and December 31, 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, or by the credit management group. The independent appraisers or the credit management group provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

Sales Comparison Approach. The valuation of investment property applied the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

The valuation of several investment property located outside the Philippines is also determined using the Income Approach which considers the capitalization of net rent income receivable from existing tenancies and the reversionary value of the property after tenancies expire by reference to market sales transactions. The significant unobservable input in the fair value measurement is the discount rate, which ranged from 2.1% to 4.0% in 2017.

It is the Group's management assessment that the fair value as at last valuation date approximates the fair value as at June 30, 2018 and December 31, 2017 because there were no significant economic developments in the areas where the investment property is located.

10. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	June 30 2018	December 31 2017 As Restated (Note 5)
Goodwill	**₱ 996**	₱ 996
Other intangible assets	**41,021**	40,786
	₱42,017	₱41,782

Goodwill acquired through business combinations which has been allocated to individual cash-generating units for impairment testing amounted to ₱304 for PTSMPFI, GFDCC and EPSBPI as at June 30, 2018 and December 31, 2017.

Goodwill relating to GSMI amounting to ₱692 that was previously recognized in SMC's consolidated financial statements was recognized in the consolidated financial statements of the Group as a result of the effect of pooling of interest as discussed in Note 5.

Other intangible assets consist of:

	June 30 2018	December 31 2017 As Restated (Note 5)
Trademarks and brand names	**₱37,460**	₱37,348
Licenses	**2,119**	2,013
Land use rights	**1,242**	1,191
Computer software and licenses	**135**	169
Formulas and recipes	**58**	58
Franchise	**7**	7
	₱41,021	₱40,786

The movements in other intangible assets with indefinite useful lives are as follows:

	Trademarks and Brand Names	Licenses	Formulas and Recipes and Franchise	Total
Cost				
January 1, 2017	₱37,543	₱1,829	₱65	₱39,437
Additions	27	—	—	27
Cumulative translation adjustments	6	184	—	190
December 31, 2017	37,576	2,013	65	39,654
Cumulative translation adjustments	126	106	—	232
June 30, 2018	**37,702**	**2,119**	**65**	**39,886**
Accumulated Impairment Losses				
January 1, 2017 and December 31, 2017	228	—	—	228
Cumulative translation adjustments	14	—	—	14
June 30, 2018	**242**	**—**	**—**	**242**
Carrying Amount				
December 31, 2017 (As Restated - Note 5)	₱37,348	₱2,013	₱65	₱39,426
June 30, 2018	**₱37,460**	**₱2,119**	**₱65**	**₱39,644**

The following are the main reasons or factors that played a significant role in determining that such assets have indefinite useful lives:

- Expected continuous cash flows from the asset;
- Stability of industry in which the assets operate; and
- Full control over the assets.

The movements in other intangible assets with finite useful lives are as follows:

	Land Use Rights	Computer Software and Other Intangibles	Total
Cost			
January 1, 2017	₱1,158	₱1,298	₱2,456
Additions	-	39	39
Disposals/reclassifications	650	(5)	645
Cumulative translation adjustments	45	1	46
December 31, 2017	1,853	1,333	3,186
Additions	-	8	8
Cumulative translation adjustments	112	6	118
June 30, 2018	**1,965**	**1,347**	**3,312**
Accumulated Amortization			
January 1, 2017	414	1,047	1,461
Amortization	40	116	156
Disposals/reclassifications	184	(6)	178
Cumulative translation adjustments	18	1	19
December 31, 2017	656	1,158	1,814
Amortization	21	42	63
Cumulative translation adjustments	40	6	46
December 31, 2017	**717**	**1,206**	**1,923**
Accumulated Impairment Losses			
January 1, 2017	6	5	11
Cumulative translation adjustments	—	1	1
June 30, 2018 and December 31, 2017	**6**	**6**	**12**
Carrying Amount			
December 31, 2017 (As Restated - Note 5)	₱1,191	₱ 169	₱1,360
June 30, 2018	**₱1,242**	**₱ 135**	**₱1,377**

Goodwill, licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	June 30, 2018		December 31, 2017 As Restated (Note 5)	
	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise
Food	**₱177**	**₱ 3,845**	₱177	₱ 3,841
Spirits	**819**	**—**	819	—
Beer and NAB	**—**	**35,799**	—	35,585
Total	**₱996**	**₱39,644**	₱996	₱39,426

Goodwill

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 2% to 5% in 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 9% to 13% in 2017. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

Goodwill was not tested for impairment in 2018 because there were no impairment indicators as at June 30, 2018. No impairment loss was recognized for goodwill in 2018 and 2017.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Raw Material Price Inflation. Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

Discount Rate. The risk-adjusted weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Trademarks and Brand Names

The recoverable amount of trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections range from 6.4% to 18.8% in 2017. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

Trademarks and brand names were not tested for impairment in 2018 because there were no impairment indicators as at June 30, 2018. No impairment loss was recognized for trademarks and brand names in 2018 and 2017.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Growth Rate. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

Discount Rate. The weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

11. Other Noncurrent Assets

Other noncurrent assets consist of:

	June 30 2018	December 31 2017 As Restated (Note 5)
Deferred containers — net	**₱14,070**	₱12,107
Noncurrent receivables and deposits — net	**566**	574
Others	**1,308**	1,101
	₱15,944	₱13,782

The movements in the deferred containers for the six months ended June 30, 2018 and for the year ended December 31, 2017 are as follows:

	June 30 2018	December 31 2017 As Restated (Note 5)
Gross Carrying Amount		
Balance at beginning of period	**₱28,157**	₱24,306
Additions	**3,578**	4,790
Disposals/reclassifications	**(1,149)**	(972)
Currency translation adjustments	**36**	33
Balance at end of period	**30,622**	28,157
Accumulated Amortization		
Balance at beginning of period	**16,050**	13,967
Amortization	**882**	2,285
Disposals/reclassifications	**(380)**	(224)
Currency translation adjustments	**—**	22
Balance at end of period	**16,552**	16,050
	14,070	₱12,107

"Noncurrent receivables and deposits" are net of allowance for impairment losses amounting to ₱164 as at June 30, 2018 and December 31, 2017.

"Others" include pallets, kegs and CO_2 cylinders, idle assets, defined benefit retirement asset and other noncurrent assets.

Idle assets, net of depreciation and impairment losses, amounted to ₱64 as at June 30, 2018 and December 31, 2017. Accumulated impairment losses on idle assets amounted to ₱480 and ₱457 as at June 30, 2018 and December 31, 2017, respectively.

"Noncurrent receivables and deposits" and "Others" accounts include amounts owed by related parties amounting to ₱62 and ₱61 as at June 30, 2018 and December 31, 2017, respectively (Note 14).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits are discussed in Note 17.

12. Long-term Debt

Long-term debt consists of:

	June 30 2018	December 31 2017 As Restated (Note 5)
Bonds:		
Series C bonds, fixed interest rate of 10.50% maturing in 2019	**₱ 2,806**	₱ 2,804
Series E bonds, fixed interest rate of 5.93% maturing in 2019	**9,987**	9,978
Series F bonds, fixed interest rate of 6.60% maturing in 2022	**6,967**	6,964
Series G bonds, fixed interest rate of 5.50% maturing in 2021	**12,407**	12,398
Series H bonds, fixed interest rate of 6.00% maturing in 2024	**2,522**	2,521
Term note:		
Floating interest rate based on PDST- R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018	**57**	114
	34,746	34,779
Less current maturities	**12,850**	114
	₱21,896	₱34,665

Bonds

The amount represents unsecured long-term debt incurred by SMB: (a) to finance its acquisition of SMC's interest in IBI and BPI; (b) to support the redemption of the Series A bonds which matured on April 3, 2012; (c) to support the partial prepayment of the US$300 unsecured loan facility agreement (which was paid in full in 2013); and (d) to support the redemption of the Series B bonds which matured on April 4, 2014.

SMB's unsecured long-term notes comprise the Philippine peso-denominated fixed rate bonds in the aggregate principal amount of: (a) ₱2,810 pertaining to the aggregate principal amount of the Series C bonds which remain outstanding of the ₱38,800 bonds (₱38,800 Bonds) which were issued on April 3, 2009 (₱38,800 Bonds Issue Date); (b) ₱17,000 pertaining to the aggregate principal amount of Series E and F bonds which remain outstanding of the ₱20,000 bonds (₱20,000 Bonds) which were issued on April 2, 2012 (₱20,000 Bonds Issue Date); and (c) ₱15,000 (₱15,000 Bonds) which were issued on April 2, 2014 (₱15,000 Bonds Issue Date).

The ₱38,800 Bonds, which originally consisted of the Series A bonds (with a term of three years from the ₱38,800 Bonds Issue Date), the Series B bonds (with a term of five years and one day from the ₱38,800 Bonds Issue Date) and the Series C bonds (with a term of ten years from the ₱38,800 Bonds Issue Date), were sold to the public pursuant to a registration statement that was rendered effective and permit to sell issued, by the SEC on March 17, 2009. The ₱38,800 Bonds were listed on the PDEx for trading on November 17, 2009. The Series A bonds matured on April 3, 2012 and were accordingly redeemed by SMB on April 3, 2012. Part of the proceeds of SMB's ₱20,000 Bonds were used to pay such maturity. The Series B bonds with an aggregate principal amount of ₱22,400 matured on April 4, 2014 and were accordingly redeemed by SMB on April 4, 2014. The proceeds of SMB's ₱15,000 Bonds were used to partially pay such maturity. Only the Series C bonds remain outstanding of the ₱38,800 Bonds. Unamortized debt issue costs related to the Series C bonds amounted to ₱4 and ₱6 as at June 30, 2018 and December 31, 2017, respectively. The ₱20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the ₱20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the ₱20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the ₱20,000 Bonds Issue Date). The ₱20,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 16, 2012. The Series E bonds and Series F bonds were listed on the PDEx for trading on April 2, 2012, while the Series D bonds were listed on the PDEx for trading on October 3, 2012. The Series D bonds with an aggregate principal amount of ₱3,000 matured on April 3, 2017 and was accordingly redeemed by SMB on the said date. Unamortized debt issue costs related to the Series E bonds and Series F bonds amounted to ₱46 and ₱58 as at June 30, 2018 and December 31, 2017, respectively.

The ₱15,000 Bonds consist of the Series G bonds (with a term of seven years from the ₱15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the ₱15,000 Bonds Issue Date). The ₱15,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEx for trading on April 2, 2014. Unamortized debt issue costs related to the ₱15,000 Bonds amounted to ₱71 and ₱81 as at June 30, 2018 and December 31, 2017, respectively.

Interest on the Series C bonds are paid semi-annually, every April 3 and October 3 of each year. Interest on the ₱20,000 Bonds are paid semi-annually every April 2 and October 2 of each year (each, a ₱20,000 Bonds Interest Payment Date), save for the first interest payment of the Series D bonds which was made on October 3, 2012. SMB may (but shall not be obligated to) redeem all (and not a part only) of the outstanding ₱20,000 Bonds on the day after the 10th ₱20,000 Bonds Interest Payment Date for the Series E bonds, and the 14th ₱20,000 Bonds Interest Payment Date for the Series F Bonds. Interest on the ₱15,000 Bonds are paid every April 2 and October 2 of each year (each, a ₱15,000 Bonds Interest Payment Date). SMB may also (but shall likewise not be obligated to) redeem all (and not a part only) of the outstanding ₱15,000 Bonds on the 11th ₱15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th ₱15,000 Bonds Interest Payment Dates for the Series H bonds.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a solicitation process for the consents of the majority of the holders of record as at December 15, 2014 of SMB's Series C bonds, Series D bonds, Series E bonds and Series F bonds (Series CDEF Bonds Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to align the same with the negative covenants of the trust agreement covering the Series G bonds and Series H bonds (Series GH Bonds Trust Agreement), and allow SMB to engage, or amend its Articles of Incorporation to engage, in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Series CDEF Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C bonds and 81.05% of the combined outstanding aggregate principal amount of the Series D bonds, Series E bonds and Series F bonds, for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said bonds on February 2, 2015.

To allow SMB to remain under the effective control of SMC through SMFB in the implementation of the corporate reorganization of the food and beverage business of SMC (and thus ensure that the trust agreements covering SMB's outstanding bonds remain consistent with their original intended purpose) as discussed in Note 1, the BOD of SMB, in its meeting on November 3, 2017, approved the conduct of a solicitation process for the consent of the majority of the holders of record as at November 8, 2017 of SMB's Series C bonds, Series E bonds and Series F bonds (Series CEF Bonds Record Bondholders) to align the change in control default provision under the trust agreements covering the Series C bonds, Series E bonds and Series F bonds with the change in control default provision under the Series GH Bonds Trust Agreement (Change in Control Amendment). Under the Series GH Bonds Trust Agreement, a change in control of SMB occurs when SMC ceases to have the ability to consolidate SMB as a subsidiary in its consolidated financial statements in accordance with the accounting principles and standards applicable to SMC then in effect.

SMB obtained the consent of the Series CEF Record Bondholders representing 88.28% of the outstanding aggregate principal amount of the Series C bonds, and 78.18% of the combined outstanding aggregate principal amount of the Series E bonds and Series F bonds, for the Change in Control Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series E bonds and Series F bonds to reflect the Change in Control Amendment were executed by SMB and the respective trustees of the said bonds on December 19, 2017.

Valuation Technique

The market value was determined using the market comparison technique. The fair values are based on PDEx. The bonds are traded in an active market and the quotes reflect the actual transactions in similar instruments.

The fair value of bonds amounting to ₱35,403 and ₱36,281 as at June 30, 2018 and December 31, 2017, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 17).

Term Note

GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to ₱800. The proceeds of the loan was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

The loan is payable up to nine years from and after the initial date of borrowing, but in no case later than September 30, 2018 (expiry date of memorandum of agreement), inclusive of a grace period of two years on principal repayment. The loan is payable in equal quarterly installments on the Principal Repayment Dates which commenced on February 18, 2012.

EPSBPI agrees to pay interest on the outstanding principal amount of borrowings on each interest payment date ending per annum equivalent to the higher of benchmark rate plus a spread of one percent or the overnight rate. Benchmark rate is the three-month PDST-R2 rate as displayed in the PDEx page on the first day of each interest period. While overnight rate means the Bangko Sentral ng Pilipinas overnight reverse repo rate on interest rate settling date.

EPSBPI paid ₱57 in 2018 as partial settlement of the loan principal. As at June 30, 2018, the outstanding balance of the term note amounted to ₱57.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with required financial covenants of the debt agreements as at June 30, 2018 and December 31, 2017, as follows:

Entity	Required Financial Ratio	Threshold
SMB	Minimum Interest Coverage Ratio	4.75:1
	Maximum Debt-to-Equity Ratio	3.50:1
EPSBPI	Maximum Debt-to-Equity Ratio	2.50:1

Interest expense recognized in the condensed consolidated interim statements of income follows:

	June 30 2018	June 30 2017
Bonds	**₱1,094**	₱1,140
Term note	**2**	3
	₱1,096	₱1,143

The movements in debt issue costs for the six months ended June 30, 2018 and for the year ended December 31, 2017 are as follows:

	June 30 2018	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**₱145**	₱193
Amortization	**(24)**	(48)
Balance at end of period	**₱121**	₱145

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2018	₱ 57	₱ —	₱ 57
2019	12,810	17	12,793
2021	12,462	55	12,407
2022	7,000	33	6,967
2024	2,538	16	2,522
	₱34,867	**₱121**	**₱34,746**

Changes in liabilities arising from financing activities for the six months ended June 30, 2018 and for the year ended December 31, 2017 are as follows:

	June 30 2018	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**₱34,779**	₱37,846
Payment of borrowings	**(57)**	(3,115)
Amortization of debt issue costs	**24**	48
Balance at end of period	**₱34,746**	₱34,779

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 16.

13. Equity

Capital Stock

As at June 30, 2018, the Parent Company's capital stock, at ₱1.00 par value per common share and ₱10.00 par value per preferred share, consists of the following number of shares:

	Note	Common	Preferred
Issued shares at beginning of period		170,874,854	30,000,000
Additional number of shares due to stock split	*1*	1,537,873,686	—
Share swap transaction	*1, 5*	4,242,549,130	—
Treasury shares		(42,077,580)	(15,000,000)
Issued and outstanding at end of period		5,909,220,090	15,000,000
Authorized shares		11,600,000,000	40,000,000

Preferred Shares issued and listed with the PSE on March 3, 2011

A summary of the Terms of the Offer is set out below:

The Parent Company, through its underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of ₱1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360- day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Parent Company, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events), as well as on the 3rd anniversary from issuance date or on any dividend payment date thereafter, as and if declared by the BOD. Unless the preferred shares are redeemed by the Parent Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On February 3, 2015, the Parent Company's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of the Parent Company's treasury shares.

Perpetual Series "2" Preferred Shares issued and listed with the PSE on March 12, 2015

On January 20, 2015, the BOD of the PSE approved, subject to SEC approval and certain conditions, the application of the Parent Company to list up to 15,000,000 perpetual series "2" preferred shares (FBP2 Shares) with a par value of ₱10.00 per share to cover the Parent Company's preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Parent Company's Registration Statement covering the registration of up to 15,000,000 FBP2 Shares at an offer price of ₱1,000.00 per share (the "FBP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on the Parent Company's application to list up to 15,000,000 FBP2 Shares with a par value of ₱10.00 per share to cover the FBP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the Parent Company's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the FBP2 Shares Offering, management determined the terms of the FBP2 Shares (Terms of the Offer), including the initial dividend rate for the FBP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

The Parent Company, through its underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of ₱1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of the Parent Company, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by the Parent Company on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by the Parent Company, and issued the Order of Registration of up to 15,000,000 FBP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the Parent Company's 15,000,000 FBP2 Shares with par value of ₱10.00 per share were issued and listed with the PSE.

The proceeds from the issuance of FBP2 Shares, net of transaction costs, amounted to ₱14,885.

As at June 30, 2018, the Parent Company has a total of 132 and 110 common and preferred stockholders, respectively.

Treasury Shares

Treasury shares, totaling 42,077,580 and 4,207,758 common shares as at June 30, 2018 and December 31, 2017, respectively, and 15,000,000 preferred shares as at June 30, 2018 and December 31, 2017, are carried at cost.

Retained Earnings

Appropriation

The BOD of certain subsidiaries approved additional appropriations amounting to ₱4,999 and ₱6,554 for the six months ended June 30, 2018 and for the year ended December 31, 2017, respectively, to finance ongoing expansion projects and the redemption of the Series C bonds and the Series E bonds which will mature in April 2019. Of the appropriations made in 2016, the ₱1,535 allotted for the redemption of the Series D bonds was reversed upon redemption of the said bonds in April 2017.

Dividend Declaration

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

2018

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	February 1, 2018	February 19, 2018	March 1, 2018	**₱2.00**
	May 9, 2018	May 24, 2018	June 8, 2018	**0.20**
Preferred				
FBP2	February 1, 2018	February 19, 2018	March 12, 2018	**14.14225**
	May 9, 2018	May 24, 2018	June 13, 2018	**14.14225**

2017

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	February 2, 2017	February 17, 2017	March 1, 2017	₱1.50
	May 9, 2017	May 24, 2017	June 8, 2017	1.50
Preferred				
FBP2	February 2, 2017	February 17, 2017	March 13, 2017	14.14225
	May 9, 2017	May 24, 2017	June 13, 2017	14.14225

On August 8, 2018, the BOD of the Parent Company declared cash dividends to all common shareholders of record as at August 23, 2018 amounting to ₱0.40 per share payable on September 6, 2018. SMFB's BOD likewise declared on August 8, 2018 cash dividends to all preferred shareholders of record as at August 23, 2018 amounting to ₱14.14225 per share payable on September 12, 2018.

14. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/ owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at June 30, 2018, June 30, 2017 (As Restated) and December 31, 2017 (As Restated):

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate ...	**June 30, 2018**	**₱ 33**	**₱ 866**	**₱ 61**	**₱ 338**	On demand; non-	Unsecured;
Parent	December 31, 2017	89	1,998	112	557	interest bearing	no impairment
Company	June 30, 2017	10	705	7	183		
Entities under ..	**June 30, 2018**	**328**	**12,049**	**616**	**4,518**	On demand; non-	Unsecured;
Common	December 31, 2017	664	19,952	594	4,571	interest bearing	no impairment
Control	June 30, 2017	195	4,758	244	1,508		
Joint Venture ...	**June 30, 2018**	**—**	**—**	**607**	**65**	On demand;	Unsecured;
	December 31, 2017	—	—	688	94	interest bearing	no impairment
	June 30, 2017	—	—	631	—		
Retirement	**June 30, 2018**	**—**	**—**	**—**	**70**	On demand; non-	Unsecured
Plan	December 31, 2017	—	—	—	5	interest bearing	
	June 30, 2017	—	—	—	62		
Associate of							
the	**June 30, 2018**	**—**	**—**	**—**	**3,872**	3 months or less;	Unsecured
Intermediate ...	December 31, 2017	—	—	—	4,530	interest bearing	
Parent	June 30, 2017	—	—	—	3,176		
Company							
Shareholders							
in	**June 30, 2018**	**83**	**263**	**5**	**34**	On demand; non-	Unsecured;
Subsidiaries	December 31, 2017	174	493	4	31	interest bearing	no impairment
and its	June 30, 2017	—	—	4	—		
Affiliates							
Total	**June 30, 2018**	**₱444**	**₱13,178**	**₱1,289**	**₱8,897**		
Total	December 31, 2017	₱927	₱22,443	₱1,398	₱9,788		
Total	June 30, 2017	₱205	₱ 5,463	₱ 886	₱4,929		

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

b. Amounts owed to related parties consist of trade and non-trade payables arising from management fees, professional fees, insurance and other services rendered by related parties.

c. The amounts owed to associate of the Intermediate Parent Company represent interest bearing loans payable to Bank of Commerce presented as part of "Notes payable" account in the condensed consolidated interim statements of financial position.

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

e. Interest income from amounts owed by Thai San Miguel Liquor Co. Ltd., recognized in the condensed consolidated interim statements of income, amounted to ₱11 for the six months ended June 30, 2018 and 2017.

15. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and diluted EPS is computed as follows:

	For the Six Months Ended June 30		For the Quarters Ended June 30	
	2018	**2017**	**2018**	**2017**
Income attributable to equity holders of the Parent Company	**₱9,260**	₱7,929	**₱4,908**	₱4,178
Less dividends on preferred shares for the period	**424**	424	**212**	212
Net income attributable to common shares shareholders of the Parent Company (a)	**₱8,836**	₱7,505	**₱4,696**	₱3,966
Weighted average number of common shares issued and outstanding (in millions) — basic/diluted (b)	**5,909**	5,909	**5,909**	5,909
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**₱ 1.50**	₱ 1.27	**₱ 0.79**	₱ 0.67

As at June 30, 2018 and 2017, the Group has no dilutive equity instruments.

16. 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, financial assets at FVOCI, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, trade payables and other current liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

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

The BOD also constituted the Board Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's enterprise risk management (ERM) system to ensure its functionality and effectiveness. The Board Risk Oversight Committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the BOD of the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Group.

Interest Rate Risk

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

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱1 and ₱2 for the six months ended June 30, 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

June 30, 2018	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	₱ 57	₱ —	₱ —	₱ —	₱ 57
Interest rate	PDST-R2+ margin or BSP overnight rate, whichever is higher				
Fixed Rate					
Philippine peso-denominated	12,810	12,462	7,000	2,538	34,810
Interest rate	5.93%-10.5%	5.50%	6.60%	6%	—
	₱ 12,867	₱12,462	₱7,000	₱2,538	₱34,867

December 31, 2017 (As Restated)	<1 Year	>1 -3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	₱ 114	₱ —	₱ —	₱ —	₱ 114
Interest rate	PDST-R2+ margin or BSP overnight rate, whichever is higher				
Fixed Rate					
Philippine peso-denominated	—	12,810	19,462	2,538	34,810
Interest rate		5.93%-10.5%	5.5%-6.6%	6%	—
	₱ 114	₱ 12,810	₱ 19,462	₱2,538	₱34,924

Foreign Currency Risk

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

The Group uses natural hedges and/or purchases foreign currencies at spot rates, where necessary, to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

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

	June 30, 2018		December 31, 2017	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$178**	**₱ 9,490**	US$174	₱ 8,699
Trade and other receivables	**35**	**1,889**	46	2,279
Noncurrent receivables	**—**	**9**	—	8
	213	**11,388**	220	10,986
Liabilities				
Notes payable	**3**	**137**	3	148
Trade payables and other current liabilities	**53**	**2,848**	62	3,063
	56	**2,985**	65	3,211
Net foreign currency-denominated monetary assets	**US$157**	**₱ 8,403**	US$155	₱ 7,775

The Group reported net gain (losses) on foreign exchange amounting to (₱41) and ₱29 for the six months ended June 30, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2018	**53.34**
December 31, 2017	49.93
June 30, 2017	50.47
December 31, 2016	49.72

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

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

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
June 30, 2018	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**₱ (2)**	**₱(177)**	**₱ 2**	**₱177**
Trade and other receivables	**(3)**	**(34)**	**3**	**34**
	(5)	**(211)**	**5**	**211**
Notes payable	**—**	**2**	**—**	**(2)**
Trade payables and other current liabilities	**12**	**50**	**(12)**	**(50)**
	12	**52**	**(12)**	**(52)**
	₱ 7	**₱(159)**	**₱ (7)**	**₱159**

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
December 31, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	₱ (3)	₱(173)	₱ 3	₱173
Trade and other receivables	(2)	(45)	2	45
	(5)	(218)	5	218
Notes payable	—	3	—	(3)
Trade payables and other current liabilities	12	57	(12)	(57)
	12	60	(12)	(60)
	₱ 7	₱(158)	₱ (7)	₱158

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

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

Liquidity Risk

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

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

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

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

June 30, 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	**₱35,448**	**₱35,448**	**₱35,448**	**₱ —**	**₱ —**	**₱ —**
Trade and other receivables — net	**15,508**	**15,508**	**15,508**	**—**	**—**	**—**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**9**	**9**	**9**	**—**	**—**	**—**
Financial assets at FVOCI (included under "Investments" account)	**58**	**58**	**—**	**—**	**—**	**58**
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	**566**	**566**	**—**	**182**	**226**	**158**
Financial Liabilities						
Notes payable	**12,625**	**12,669**	**12,669**	**—**	**—**	**—**
Trade payables and other current liabilities (excluding derivative liabilities)	**33,607**	**33,607**	**33,607**	**—**	**—**	**—**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**221**	**221**	**221**	**—**	**—**	**—**
Long-term debt (including current maturities)	**34,746**	**40,033**	**14,836**	**1,300**	**21,244**	**2,653**

December 31, 2017 (As Restated)	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	₱35,540	₱35,540	₱35,540	₱ —	₱ —	₱ —
Trade and other receivables — net	18,237	18,237	18,237	—	—	—
Derivative assets (included under "Prepaid expenses and other current assets" account)	61	61	61	—	—	—
AFS financial assets (included under "Investments" account)	53	53	—	—	—	53
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	574	574	—	121	186	267
Financial Liabilities						
Notes payable	13,939	13,970	13,970	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	33,491	33,491	33,491	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account)	118	118	118	—	—	—
Long-term debt (including current maturities)	34,779	41,186	2,304	14,335	21,818	2,729
Other noncurrent liabilities (excluding retirement liabilities and other non-financial liabilities)	30	30	—	30	—	—

Credit Risk

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

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

Trade and Other Receivables

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

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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.

	Note	June 30 2018	December 31 2017 As Restated (Note 5)
Cash and cash equivalents (excluding cash on hand)		₱35,321	₱35,403
Trade and other receivables — net		15,508	18,237
Derivative assets		9	61
Noncurrent receivables and deposits — net	*11*	566	574
		₱51,404	₱54,275

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.

Financial and Other Risks Relating to Livestock

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

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

The Group is not subject to externally-imposed capital requirements.

17. Financial Assets and Financial Liabilities

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

	June 30, 2018		December 31, 2017 As Restated	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱35,448**	**₱35,448**	₱35,540	₱35,540
Trade and other receivables — net	**15,508**	**15,508**	18,237	18,237
Derivative assets (included under "Prepaid expenses and other current assets" account)	**9**	**9**	61	61
Financial assets at FVOCI (included under "Investments" account)	**58**	**58**	53	53
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	**566**	**566**	574	574
Financial Liabilities				
Notes payable	**12,625**	**12,625**	13,939	13,939
Trade payables and other current liabilities (excluding derivative liabilities)	**33,607**	**33,607**	33,491	33,491
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**221**	**221**	118	118
Long-term debt (including current maturities)	**34,746**	**35,460**	34,779	36,395
Other noncurrent liabilities (excluding retirement and other non-financial liabilities)	**—**	**—**	30	30

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 amounts of cash and cash equivalents, and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

Financial assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used range from 3.9% to 6.0% and 2.5% to 5.1% as at June 30, 2018 and December 31, 2017, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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, through SMC, enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rates and commodity price risk. The portfolio is a mixture of instruments including futures, swaps and options.

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at June 30 and March 31, 2018 and December 31, 2017, the total outstanding notional amount of such embedded currency forwards amounted to US$103, US$118 and US$115, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to ₱212, ₱260 and ₱57 as at June 30 and March 31, 2018 and December 31, 2017, respectively.

The Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to ₱270, ₱55, ₱262 and ₱40 for the six months ended June 30, 2018 and 2017, and for the three months ended March 31, 2018 and 2017, respectively.

Fair Value Hierarchy

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

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

	June 30, 2018			**December 31, 2017**		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Financial Assets						
Derivative assets	**₱—**	**₱ 9**	**₱ 9**	₱—	₱ 61	₱ 61
Financial assets at FVOCI	**57**	**1**	**58**	50	3	53
Financial Liabilities						
Derivative liabilities	**—**	**221**	**221**	—	118	118

The Group has no financial instruments valued based on Level 3 as at June 30, 2018 and December 31, 2017. For the six months ended June 30, 2018 and for the year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

18. Other Matters

a. The Group is a party to certain lawsuits or claims (including intellectual property rights cases, labor cases and others) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the condensed consolidated interim financial statements of the Group.

- Claims for Tax Refund

  i. Filed by SMC

  On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light," one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) First Division under two cases, CTA Case Nos. 7052 and 7053. To these cases was consolidated SMC's claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it for its "San Mig Light" product for the period of February 2, 2004 to November 30, 2005 (docketed as CTA Case No. 7405). The CTA, through its First Division, and the CTA*En Banc* (on appeal), both ruled in favor of SMC. On April 1, 2013, the BIR elevated the consolidated cases to the Supreme Court (docketed as G.R. No. 205723).

  SMC filed with the CTA by way of petition for review (Third Division and docketed as CTA Case No. 7708), a second claim for refund for overpayments of excise taxes for the period of December 1, 2005 to July 31, 2007 on November 27, 2007, as SMC was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. The CTA Third Division granted SMC's petition for review and ordered the BIR to refund or issue a tax credit certificate in favor of SMC. The BIR elevated the decision of the Third Division to the CTA *En Banc* but its appeal was denied. Subsequently, the BIR filed a petition for review with the Supreme Court (docketed as G.R. No. 205045).

  On January 25, 2017, the Supreme Court decided in the consolidated cases of GR Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of ₱926 for the period December 1, 2005 to July 31, 2007, and ₱782 for the period February 2, 2004 to November 30, 2005. The office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017.

  SMC filed its third claim for refund with the CTA (Third Division docketed as CTA Case No. 7953) on July 24, 2009 for overpayments of excise taxes for the period of August 1, 2007 to September 30, 2007. This case was consolidated with CTA Case No. 7973 below.

  ii. Filed by SMB

  In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

  SMB filed nine claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

  (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 — Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 — First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 — Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 — Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 — Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 — Third Division docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 — Third Division docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 — Second Division docketed as CTA Case No. 9513 (December 2016); and

(i) ninth claim for refund of overpayments for the period of January 1, 2016 to December 31, 2016 — Second Division docketed as CTA Case No. 9743.

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMB and ordered the BIR to refund SMB the amount of ₱828. The BIR appealed to the CTA *En Banc* which affirmed the Decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions. With the decisions in favor of SMB, SMB, through counsel, shall move for the execution of the Decision when the records of the case are returned to the court of origin.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division. The case was not elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of ₱730, while the BIR filed a Petition for Certiorari before the Supreme Court. The Petition was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB received a clarificatory Resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's Petition for Certiorari and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB, through counsel, shall proceed with the enforcement of the writ of execution by filing with the BIR an application for the issuance of a Tax Credit Certification in favor of SMB.

CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA *En Banc*. The BIR was ordered to refund SMB the amount of ₱699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the Supreme Court through its July 24, 2017 Resolution. With the decisions in favor of SMB, SMB, through counsel, shall move for the execution of the Decision when the records of the case are returned to the court of origin.

CTA Case No. 8591 was decided in favor of SMB by the CTA's Second Division and *En Banc*. The BIR appealed the CTA *En Banc* decision to the Supreme Court, where it was denied. The BIR filed a Motion for Reconsideration which remains pending to date.

CTA Case No. 8748 was decided in favor of SMB by the CTA Second Division. The BIR appealed the decision to the CTA *En Banc* and is submitted for decision.

CTA Case No. 8955 was decided against SMB by the CTA Third Division for having purportedly availed of the wrong mode of appeal. SMB appealed the decision before the CTA *En Banc* and is submitted for decision.

CTA Case No. 9223 is still pending before the CTA Third Division while CTA Case Nos. 9513 and 9743 are still pending before the CTA Second Division.

iii. Filed by GSMI

(a) GSMI vs. Commissioner of Internal Revenue
CTA Case Nos. 8953 and 8954 (Consolidated)
Third Division

These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of ₱582 in Case No. 8953, and ₱133 in Case No. 8954, or in the total amount of ₱715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

These cases are still pending with the CTA.

(b) GSMI vs. Commissioner of Internal Revenue
CTA Case No. 9059
Second Division

This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of ₱26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

This case is still pending with the CTA.

- Pending Tax Cases

i. IBI

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year

2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by canceling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of ₱270 on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. Both IBI and the BIR filed separate Motions for Reconsideration which the CTA *En Banc* has submitted for resolution.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and value-added tax (VAT) deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc*. In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of ₱110, where IBI requested for the cancelation of the surcharge and interests. Both the Petition for Review and IBI's application for abatement remain pending for resolution by the CTA *En Banc* and the BIR, respectively.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, DST and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. The case is currently pending while, at the same time, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending for resolution by the CTA Third Division and the BIR, respectively, to date.

ii. SMFB

(a) SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of Monterey Foods Corporation (MFC) for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand (FLD)/Final Assessment Notice (FAN) issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of a valid Letter of Authority (LoA). Accordingly, the FLD/FAN issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered canceled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

(b) SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credits from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

The case is now submitted for decision of the CTA First Division.

b. 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.

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

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

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

f. 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.

g. Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses under the Food segment which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the six months ended June 30, 2018.

i. 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 end of June 30, 2018. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

19. Events After the Reporting Date

a. As the issuance of the New Shares resulted in the Parent Company's public ownership level falling below the minimum ten percent (10%) requirement under the PSE's Amended Rule on Minimum Public Ownership ("MPO Rule"), the PSE suspended the trading of the Parent Company's common and preferred shares (collectively, the "FB Shares") commencing July 6, 2018 and until the Parent Company is able to secure a favorable ruling/opinion from the Bureau of Internal Revenue (BIR) on the appropriate taxes to be imposed on the trades of FB Shares through the PSE during the period not exceeding six months (the "MPO Exemption Period").

   On July 20, 2018, the Parent Company received BIR Ruling No. 1092-2018, granting temporary exemption from the MPO Rule and states that the share swap and the follow-on offer of common shares and all trades of FB Shares through the PSE during the MPO Exemption Period are not subject to capital gains tax of 15% under Revenue Regulations No. 16-2012 as Amended by RR No.11-2018 (TRAIN Law), and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%), shall be imposed on all trades through the PSE of FB Shares during the same period. The temporary exemption is effective until December 31, 2018.

   On July 23, 2018, the PSE lifted the trading suspension of FB shares.

b. On July 17, 2018, BPI signed an agreement for the purchase of a parcel of land in Novaliches, Quezon City with an area of 15,829 square meters where SMB's sales office is located, for the total purchase price of ₱860. BPI paid a down payment of ₱100 under the agreement.

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

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that the Group uses. Analyzes are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	As of June 30, 2018	As of December 31, 2017
Liquidity:		
Current Ratio	1.40	1.69
Solvency:		
Debt to Equity Ratio	0.72	0.79
Asset to Equity Ratio	1.72	1.79
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	26.90%	28.04%
Interest Rate Coverage Ratio	17.64	16.00

	For the Period Ended June 30, 2018	For the Period Ended June 30, 2017
Operating Efficiency:		
Volume Growth	10.94%	6.80%
Revenue Growth	15.37%	9.36%
Operating Margin	16.65%	16.00%

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

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

* *Annualized for quarterly reporting; excluding cash dividends paid to preferred shareholders*

** *Excluding preferred capital stock and related additional paid-in capital*

SAN MIGUEL
FOOD AND BEVERAGE, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR COMBINED FINANCIAL STATEMENTS

The management of San Miguel Food and Beverage, Inc. (the "Company"), is responsible for the preparation and fair presentation of the combined financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the combined financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the combined financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

EDUARDO M. COJUANGCO, JR.
Chairman of the Board

RAMON S. ANG
President and Chief Executive Officer

ILDEFONSO B. ALINDOGAN
Vice-President and Chief Finance Officer

Signed this 7th day of June 2018

SUBSCRIBED AND SWORN to before me this SEP 2 0 2018, 2018, affiant exhibiting to me their passports as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Eduardo M. Cojuangco Jr.	EC3542719	February 27, 2015	DFA Manila
Ramon S. Ang	EC3542718	February 27, 2015	DFA Manila
Ildefonso B. Alindogan	P4964891A	November 7, 2017	DFA Manila

MA. CELESTE L. LEGASPI
Notary Public for Pasig City
Commission until 31 December 2018
22nd Floor, JMT Corporate Condominium,
ADB Ave., Ortigas Center, Pasig City
APPT No. 63 (2017-2018)/Roll No. 47611
IBP No. 024945; 1/9/2018; RSM
PTR No. 3867078; 1/10/2018; Pasig City
MCLE Compliance No. V-0024162; 10/25/2016

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Book No. 16 ;
Series of 2018

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Food and Beverage, Inc.
(formerly San Miguel Pure Foods Company Inc.)
23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City

Opinion

We have audited the accompanying combined financial statements of San Miguel Food and Beverage, Inc. (the "Company"), formerly San Miguel Pure Foods Company Inc., San Miguel Brewery Inc. and Ginebra San Miguel Inc., including their respective consolidated subsidiaries (the "San Miguel Food and Beverage Group" or the "Group"), which comprise the combined statements of financial position as at December 31, 2017, 2016 and 2015, and the combined statements of income, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the three years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Group as at December 31, 2017, 2016 and 2015, and its combined financial performance and its combined cash flows for the three years then ended, in accordance with the combination basis of preparation described in Note 2 to the combined financial statements and with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audits of the combined financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the combined financial statements, which explains the basis of presentation and disclosure, and principles of combination, including the approach to and purpose for preparing them. These combined financial statements are presented in the context of the contemplated public offering of common shares by San Miguel Food and Beverage, Inc. following the internal restructuring of San Miguel Corporation, the Intermediate Parent Company of the Group, to consolidate its food and beverage businesses under the Company. As a result, the combined financial statements may not be suitable for another purpose.

We also draw attention to Note 1 of the combined financial statements which explains that San Miguel Food and Beverage Group has not operated as a separate group of entities. These combined financial statements are, therefore, not necessarily indicative of the financial position and financial performance that would have been achieved if the San Miguel Food and Beverage Group had operated as a separate group of entities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the combined financial statements of the current period. These matters were addressed in the context of our audit of the combined financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Testing of Trademarks and Brand Names (₱37,348 million)

Refer to Note 15 to the combined financial statements.

The risk

The Group has assessed that the trademarks and brand names have indefinite useful lives in view of the fact that there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group. Trademarks and brand names represent 18% of the combined total assets of the Group. As required by Philippine Accounting Standard (PAS) 36, *Impairment of Assets,* impairment testing is required annually for intangible assets with indefinite useful lives, irrespective of whether there is an indication that the related assets may be impaired.

We focused on this area because of the subjectivity and complexity of determining the recoverable amounts which involve significant estimation uncertainty. As a result, we assessed that the impairment testing is a key audit matter.

Our response

Our audit work included an evaluation and assessment of the methodology applied in the impairment test in accordance with PAS 36. We have updated our understanding of the management's annual impairment testing process. In evaluating the reasonableness of the future cash flow forecasts, we compared them with the latest Board of Directors' approved budgets and considered the historical accuracy of management's forecasts by comparing prior year forecasts to actual results. We challenged the key assumptions for long term growth rates in the forecasts by comparing them with historical results, economic and industry forecasts; and challenged the discount rate used by recalculating the Group's weighted average cost of capital using comparable market information. We have involved our own valuation specialist in the evaluation. We have also assessed the appropriateness and adequacy of the presentation and the relevant disclosures in the combined financial statements.

Revenue Recognition (₱251,589 million)

Refer to Notes 22 and 30 to the combined financial statements.

The risk

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customers and all economic risks for the Group have been transferred. While revenue recognition and measurement are not complex for the Group, revenue may be inappropriately recognized in order to improve business results and achieve capital and revenue growths in line with the objectives of the Group. The nature of the Group's operations poses a risk that revenue recognized may be inconsistent with the requirements of PAS 18, *Revenue,* since there is a timing difference between recording the transaction and transfer of significant risks and rewards of ownership to the customers. Moreover, due to the materiality of revenue in the combined financial statements, it is deemed as one of our key audit matters.

Our response

Our audit work included, evaluation and assessment of the revenue recognition policies of the Group in accordance with PAS 18. We have identified and assessed key controls over the revenue process. We have also involved our Information Technology (IT) specialists to assist in the audits of automated controls, including interface controls between different IT applications, for the evaluation of relevant IT systems and the design and operating effectiveness of controls over the recording of revenue transactions. We tested revenue throughout the period by selecting samples of transactions to ascertain that it met the revenue recognition criteria and traced it to source documentation to ensure propriety of recording. We checked whether transactions were recorded in the appropriate accounting period to assess whether reported revenues are complete and have occurred in the relevant period. We tested, on a sampling basis, credit notes issued after the financial year, to identify and assess any credit notes that relate to sales transactions recognized during the financial year. In addition, a combination of third party confirmations and testing of subsequent collections of credit sales were conducted. We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the combined financial statements.

Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is John Molina.

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-2, Group A, valid until August 10, 2020
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 6615145MD
Issued January 3, 2018 at Makati City

June 7, 2018
Makati City, Metro Manila

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	2017	2016	2015
ASSETS				
Current Assets				
Cash and cash equivalents	*7, 34, 35*	**₱ 35,540**	₱ 30,332	₱ 25,580
Trade and other receivables — net	*4, 8, 30, 34, 35*	**18,237**	18,728	18,128
Inventories	*4, 9*	**28,358**	25,296	21,853
Current portion of biological assets — net	*10*	**3,422**	3,122	3,319
Prepaid expenses and other current assets	*11, 30, 34, 35*	**4,872**	4,283	4,935
Total Current Assets		**90,429**	81,761	73,815
Noncurrent Assets				
Investments	*4, 12, 34, 35*	**399**	518	596
Property, plant and equipment — net	*4, 13*	**51,125**	41,583	36,738
Investment property — net	*4, 14*	**2,100**	2,480	2,176
Biological assets — net of current portion	*4, 10*	**2,695**	2,263	2,177
Goodwill — net	*4, 15*	**304**	304	304
Other intangible assets — net	*4, 15*	**40,786**	40,193	40,109
Deferred tax assets	*4, 20*	**2,791**	3,134	3,256
Other noncurrent assets — net	*4, 16, 30, 32, 34, 35*	**13,782**	11,459	10,519
Total Noncurrent Assets		**113,982**	101,934	95,875
		₱204,411	₱183,695	₱169,690
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	*17, 30, 34, 35*	**₱ 13,939**	₱ 13,124	₱ 11,982
Trade payables and other current liabilities	*18, 30, 34, 35*	**33,609**	26,858	25,380
Income and other taxes payable		**5,734**	5,088	4,748
Dividends payable		**30**	26	23
Current maturities of long-term debt — net of debt issue costs	*19, 34, 35*	**114**	3,113	179
Total Current Liabilities		**53,426**	48,209	42,312
Noncurrent Liabilities				
Long-term debt — net of current maturities and debt issue costs	*19, 34, 35*	**34,665**	34,733	37,795
Deferred tax liabilities	*20*	**53**	140	140
Other noncurrent liabilities	*4, 30, 32, 34, 35*	**2,338**	2,261	4,363
Total Noncurrent Liabilities		**37,056**	37,134	42,298
Total Liabilities		**90,482**	85,343	84,610
Equity				
Equity attributable to equity holders of the combined entities	*21*	**108,403**	93,423	80,714
Non-controlling interests	*2, 21*	**5,526**	4,929	4,366
Total Equity		**113,929**	98,352	85,080
		₱204,411	₱183,695	₱169,690

See Notes to the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions, Except Per Share Data)

	Note	2017	2016	2015
SALES	*22, 30*	**₱251,589**	₱227,279	₱205,396
COST OF SALES	*23, 30*	**168,460**	152,108	140,697
GROSS PROFIT		**83,129**	75,171	64,699
SELLING AND ADMINISTRATIVE EXPENSES	*24, 30*	**(40,728)**	(38,128)	(33,847)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*17, 19, 27*	**(2,658)**	(3,212)	(3,472)
INTEREST INCOME	*28*	**669**	511	472
EQUITY IN NET LOSSES OF JOINT VENTURES	*12*	**(186)**	(97)	(110)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*12, 13, 14*	**—**	149	233
OTHER CHARGES — Net	*29*	**(365)**	(295)	(1,582)
INCOME BEFORE INCOME TAX		**39,861**	34,099	26,393
INCOME TAX EXPENSE	*20*	**11,635**	10,097	8,539
NET INCOME		**₱ 28,226**	₱ 24,002	₱ 17,854
Attributable to:				
Equity holders of the combined entities		**₱ 27,356**	₱ 23,267	₱ 17,334
Non-controlling interests		**870**	735	520
		₱ 28,226	₱ 24,002	₱ 17,854

See Notes to the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	2017	2016	2015
NET INCOME		**₱28,226**	₱24,002	₱17,854
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurement gain (loss) on reserve for retirement plan	*32*	**(149)**	793	(625)
Income tax benefit (expense)	*20*	**53**	(226)	174
Share in other comprehensive income (loss) of joint ventures	*12*	67	37	(25)
		(29)	604	(476)
Items that may be reclassified to profit or loss				
Gain on exchange differences on translation of foreign operations		**446**	962	205
Net gain on available-for-sale financial assets		**—**	1	1
		446	963	206
OTHER COMPREHENSIVE INCOME (LOSS) — Net of tax		**417**	**1,567**	**(270)**
TOTAL COMPREHENSIVE INCOME — Net of tax		₱28,643	₱25,569	₱17,584
Attributable to:				
Equity holders of the combined entities		**₱27,896**	₱24,646	₱16,995
Non-controlling interests		**747**	923	589
		₱28,643	₱25,569	₱17,584

See Notes to the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	Equity Attributable to Equity Holders of the Combined Entities	Non-controlling Interests	Total Equity
As of January 1, 2015		₱ 74,665	₱4,194	₱ 78,859
Net income		17,334	520	17,854
Other comprehensive income (loss) — net of tax		(339)	69	(270)
Redemption of outstanding preferred shares	*21*	(15,000)	—	(15,000)
Issuance of perpetual series "2" preferred shares, net of transaction costs	*21*	14,885	—	14,885
Divestment of non-controlling interests	*5*	430	126	556
Additions to non-controlling interests		—	40	40
Cash dividends	*21*	(11,261)	(583)	(11,844)
As of December 31, 2015		80,714	4,366	85,080
Net income		23,267	735	24,002
Other comprehensive income — net of tax		1,379	188	1,567
Cash dividends	*21*	(11,937)	(360)	(12,297)
As of December 31, 2016		93,423	4,929	98,352
Net income		27,356	870	28,226
Other comprehensive income (loss) — net of tax		540	(123)	417
Additions to non-controlling interests		—	88	88
Share issuance costs		(7)	—	(7)
Cash dividends	*21*	(12,909)	(238)	(13,147)
As of December 31, 2017		**₱108,403**	**₱5,526**	**₱113,929**

See Notes to the Combined Financial Statements

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱ 39,861**	₱ 34,099	₱ 26,393
Adjustments for:				
Depreciation and amortization	*25, 29*	**7,615**	7,928	6,644
Interest expense and other financing charges	*27*	**2,658**	3,212	3,472
Retirement costs	*26, 32*	**915**	841	828
Provisions for impairment losses on receivables and write-down of inventories	*8, 9, 16*	**690**	954	632
Impairment losses on property, plant and equipment, goodwill and other noncurrent assets	*29*	**534**	109	1,364
Equity in net losses of joint ventures	*12*	**186**	97	110
Interest income	*28*	**(669)**	(511)	(472)
Loss (gain) on fair valuation of agricultural produce	*22*	**(37)**	2	(29)
Gain on sale of investments and property and equipment		**—**	(149)	(233)
Other charges (income) net of loss (gain) on derivative transactions		**(179)**	221	115
Operating income before working capital changes		**51,574**	46,803	38,824
Decrease (increase) in:				
Trade and other receivables		**631**	(1,269)	2,603
Inventories		**(3,698)**	(3,959)	(100)
Biological assets		**(301)**	197	1
Prepaid expenses and other current assets		**(787)**	477	1,008
Increase in trade payables and other current liabilities		**7,292**	1,810	1,852
Cash generated from operations		**54,711**	44,059	44,188
Income taxes paid		**(10,783)**	(9,710)	(7,932)
Interest paid		**(2,647)**	(3,176)	(3,416)
Contributions paid	*32*	**(1,013)**	(2,357)	(1,476)
Interest received		**630**	480	434
Net cash flows provided by operating activities		**40,898**	29,296	31,798
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment and investment property	*13, 14*	**(12,959)**	(8,071)	(4,391)
Increase in biological assets, intangible assets and other noncurrent assets	*10, 15, 16*	**(7,758)**	(5,798)	(4,247)
Proceeds from sale of investments and property and equipment		**307**	386	255
Net cash flows used in investing activities		**(20,410)**	(13,483)	(8,383)

Forward

SAN MIGUEL FOOD AND BEVERAGE GROUP

COMBINED STATEMENTS OF CASH FLOWS — (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings	*17*	**₱ 194,395**	₱ 200,619	₱ 347,890
Long-term borrowings	*19*	**—**	—	65
Payments of:				
Short-term borrowings	*17*	**(193,579)**	(199,485)	(354,741)
Long-term borrowings	*19*	**(3,115)**	(184)	(4,614)
Cash dividends paid		**(13,146)**	(12,294)	(11,776)
Additions to non-controlling interests		**88**	—	15
Proceeds from deposit for future stock subscription		**60**	—	—
Payment of share issuance costs		**(10)**	—	—
Redemption of outstanding preferred shares	*21*	**—**	—	(15,000)
Redemption of outstanding common shares		**—**	—	(6)
Collection of subscription receivable		**—**	1	5
Issuance of perpetual series "2" preferred shares, net of transaction costs	*21*	**—**	—	14,885
Divestment of non-controlling interests	*5*	**—**	—	556
Net cash flows used in financing activities		**(15,307)**	(11,343)	(22,721)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**27**	282	204
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,208**	4,752	898
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**30,332**	25,580	24,682
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**₱ 35,540**	₱ 30,332	₱ 25,580

See Notes to the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Corporate Information and Purpose of Combined Financial Statements

The accompanying combined financial statements comprise the historical consolidated financial statements of the combined entities, namely, San Miguel Food and Beverage, Inc. (SMFB), formerly San Miguel Pure Foods Company Inc., San Miguel Brewery Inc. (SMB), Ginebra San Miguel Inc. (GSMI) and their respective consolidated subsidiaries (collectively referred to as the "San Miguel Food and Beverage Group" or the "Group"). The combined entities are all under the common control of San Miguel Corporation (SMC or the Intermediate Parent Company), for all the periods presented. Top Frontier Investment Holdings, Inc. (Top Frontier) is the ultimate parent company of the Group. SMC and Top Frontier are both public companies under Section 17.2 of the Securities Regulation Code (SRC).

SMFB was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in October 1956 for a term of 50 years. On August 8, 2006, the stockholders approved the amendment to the Articles of Incorporation of SMFB, extending the term for which the corporation is to exist for another 50 years from October 30, 2006 or until October 30, 2056. The amendment was subsequently approved by the SEC.

SMFB is a public company under Section 17.2 of the SRC. Its common and preferred shares are listed in the Philippine Stock Exchange (PSE) since 1973 and 2011, respectively.

SMFB and its subsidiaries are engaged in various business activities, including poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, specialty oils, spreads, desserts and dairy-based products, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling.

SMB was incorporated and registered with the SEC on July 26, 2007. SMB is a public company under Section 17.2 of the SRC and its Peso-denominated fixed rate bonds issued in 2009, 2012 and 2014 are listed on the Philippine Dealing & Exchange Corp. (PDEx).

SMB's common shares were listed on the PSE on May 12, 2008. SMB filed a petition for voluntary delisting with the PSE following the PSE's adoption of the minimum public ownership rule and denial by SEC of all requests made (including SMB's request) for the extension of the grace period to comply with such rule. The petition was approved by the PSE on April 24, 2013 and SMB's common shares were delisted effective May 15, 2013.

SMB and its subsidiaries are primarily engaged in manufacturing, selling and distribution of fermented, malt-based and non-alcoholic beverages (NAB). SMB is also engaged in acquiring, developing and licensing trademarks and intellectual property rights and in the management, sale, exchange, lease and holding for investment of real estate of all kinds including buildings and other structures.

GSMI, formerly La Tondeña Distiller's, Inc., was incorporated and registered with the SEC on July 10, 1987. GSMI is a public company under Section 17.2 of the SRC and its shares are listed on the PSE.

GSMI and its subsidiaries are primarily engaged in manufacturing and selling of alcoholic beverages.

These combined financial statements are presented in the context of the contemplated public offering of common shares by SMFB following the internal restructuring of SMC to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to result in synergies in the food and beverage business units of the San Miguel Group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel Group through SMFB. Such corporate action was approved by the Board of Directors (BOD) of SMC on November 3, 2017.

To implement such consolidation, SMC will transfer all of its 7,859,319,270 common shares in SMB and all of its 216,972,000 common shares in GSMI (collectively, the "Exchange Shares") to SMFB. In consideration for the Exchange Shares, SMFB will issue 4,242,549,130 new common shares (the "New Shares") to SMC.

In this connection, the following corporate actions were approved by the BOD of SMFB on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of SMFB to include the beverage business and accordingly change its corporate name to "San Miguel Food and Beverage, Inc.", reduce the par value of its common shares from ₱10.00 per share to ₱1.00 per share, and deny pre-emptive rights for issuances or dispositions of all common shares (collectively, the "First Amendments"); (b) upon approval by the SEC of the First Amendments, the increase in its authorized capital stock by ₱9,540 divided into 9,540,000,000 common shares with a par value of ₱1.00 per share, and the amendment to the Articles of Incorporation to reflect such increase (the "Increase"); (c) the acquisition of the Exchange Shares from SMC and issuance by SMFB of New Shares to SMC from the Increase, as consideration for the Exchange Shares; (d) the tender offer for SMB and GSMI shares held by minority shareholders, if required; and (e) the listing on the PSE of the additional shares resulting from the reduction of par value of common shares and the New Shares to be issued to SMC. On March 23, 2018, the SEC approved the First Amendments.

On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB the Exchange Shares at the total transfer value of ₱336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue unto SMC the New Shares. The New Shares will be taken out of the Increase. Thus, the issuance of the New Shares to SMC and the transfer of the Exchange Shares to SMFB is conditioned upon the approval by the SEC of the Increase.

The registered office address of SMFB is at 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, while the registered office address of SMB and GSMI is at No. 40 San Miguel Avenue, Mandaluyong City and at 3rd and 6th Floor, San Miguel Properties Center, St. Francis Street, Ortigas Center, Mandaluyong City, respectively.

2. Basis of Preparation

Statement of Compliance

The accompanying combined financial statements were prepared in compliance with the Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

Since PFRS provides no guidelines for the preparation of combined financial statements, rules given in PAS 8.12 have been used. PAS 8.12 requires the consideration of the most recent pronouncements of other standard-setting bodies, other financial requirements and recognized industry practices.

Following PAS 8.12, the predecessor accounting approach has been applied in the combined financial statements of San Miguel Food and Beverage Group. The combined financial statements of San Miguel Food and Beverage Group reflect the entities and operations of SMFB, SMB and GSMI, including their respective subsidiaries, as historically included in the consolidated financial statements of each of the combined entities in accordance with PFRS. The San Miguel Food and Beverage Group applies the same accounting policies and measurement principles in preparing the combined financial statements as used by SMFB, SMB and GSMI, and their respective subsidiaries, in preparing their financial information for inclusion in their respective historical consolidated financial statements in accordance with PFRS.

The combined financial statements of the Group were approved and authorized for issue by the SMFB's management on June 7, 2018 upon authority granted to it by SMFB's BOD on May 9, 2018.

Basis of Measurement

The combined financial statements of the Group have been prepared on a historical cost basis, except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

The combined financial statements are presented in Philippine peso, which is the functional currency of each of the combined entities. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

Principles of Combination

The accompanying combined financial statements include the horizontal sum of all the accounts and transactions of each combined entities' historical consolidated financial statements. All material transactions and balances between and among the Group have been eliminated in the combination. The balance of stockholders' equity presented in the combined statements of financial position as of December 31, 2017, 2016 and 2015 includes the total equity interest over the combined entities. Each entity is a separate legal entity, which is responsible and maintains custody of its own financial resources.

The combined financial statements were prepared solely for inclusion to the Offering Circular prepared by SMFB for the contemplated public offering of the common shares of SMFB and for no other purpose. The combined financial statements were prepared to show investors the financial condition and historical performance of the combined entities that will form part of SMFB's consolidated group.

The combined financial statements include the historical consolidated financial statements of SMFB, SMB and GSMI with their respective subsidiaries as follows:

	Percentage of Ownership			Country of Incorporation
	2017	**2016**	**2015**	
Food				
Subsidiaries of SMFB				
San Miguel Mills, Inc. (SMMI) and subsidiaries [including Golden Bay Grain Terminal Corporation (GBGTC) and Golden Avenue Corp.]	**100.00**	100.00	100.00	Philippines
Magnolia, Inc. (Magnolia) and subsidiaries [including Sugarland Corporation and Golden Food & Dairy Creamery Corporation (GFDCC)]	**100.00**	100.00	100.00	Philippines
San Miguel Foods, Inc. (SMFI) and subsidiary, Foodcrave Marketing, Inc.	**99.99**	99.99	99.99	Philippines
PT San Miguel Pure Foods Indonesia (PTSMPFI)	**75.00**	75.00	75.00	Indonesia
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	**70.00**	70.00	70.00	Philippines
The Purefoods-Hormel Company, Inc. (PF-Hormel)	**60.00**	60.00	60.00	Philippines
RealSnacks Mfg. Corp.	**100.00**	100.00	100.00	Philippines
San Miguel Pure Foods International, Limited (SMPFIL) and subsidiary [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd. (formerly San Miguel Hormel (VN) Co., Ltd. (SMHVN))]	**100.00**	100.00	100.00	British Virgin Islands (BVI)
Beer and Non-alcoholic Beverage				
Subsidiaries of SMB				
Iconic Beverages, Inc. (IBI)	**100.00**	100.00	100.00	Philippines
San Miguel Brewing International Limited and subsidiaries [including Neptunia Corporation Limited and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries (including San Miguel (Guangdong) Limited and subsidiary, Guangzhou San Miguel Brewery Co. Ltd., and San Miguel Shunde Holdings Limited and subsidiary, San Miguel (Guangdong) Brewery Co. Ltd)}, San Miguel (China) Investment Company Limited and San Miguel (Baoding) Brewery Co. Ltd. (SMBB), San Miguel Holdings (Thailand) Limited (SMHTL) and subsidiary, San Miguel Beer (Thailand) Limited (SMBTL), San Miguel Marketing (Thailand) Limited, Dragon Island Investments Limited, San Miguel (Vietnam) Limited, San Miguel Brewery Vietnam Company Limited, and San Miguel Malaysia Pte. Ltd and subsidiary, PT. Delta Djakarta Tbk. and subsidiary (PTD)]	**100.00**	100.00	100.00	BVI
Brewery Properties Inc. (BPI) and subsidiary	**40.00**	40.00	40.00	Philippines
Spirits				
Subsidiaries of GSMI				
Distileria Bago, Inc.	**100.00**	100.00	100.00	Philippines
East Pacific Star Bottlers Phils Inc. (EPSBPI)	**100.00**	100.00	100.00	Philippines
Agricrops Industries Inc.	**100.00**	100.00	100.00	Philippines
Healthy Condiments, Inc.	**100.00**	100.00	100.00	Philippines
Crown Royal Distillers, Inc.	**100.00**	100.00	100.00	Philippines
Ginebra San Miguel International Ltd. (GSMIL)	**100.00**	100.00	100.00	BVI
GSM International Holdings Limited (GSMIHL)	**100.00**	100.00	100.00	BVI
Global Beverages Holdings Limited	**100.00**	100.00	100.00	BVI
Siam Holdings Limited	**100.00**	100.00	100.00	BVI

As to the basis of the principles, the consolidation standard under PFRS was used taking into consideration the ultimate control of SMC over the combined entities. As of December 31, 2017, 2016 and 2015, the percentage of ownership of SMC and other stockholders over each of the combined entities follow:

	SMFB	SMB	GSMI
SMC	85.37%	51.16%	78.27%
Other stockholders	14.63%	48.84%	21.73%
	100.00%	100.00%	100.00%

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in each of the consolidated financial statements of the combined entities, and consequently, in the combined financial statements, from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the combined entities, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing both the consolidated and combined financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to SMFB, SMB and GSMI and are presented in the combined statements of income, combined statements of comprehensive income and within equity in the combined statements of financial position, separately from the equity attributable to equity holders of the combined entities.

Non-controlling interests represent the interests not held by SMFB, SMB and GSMI in their respective subsidiaries as follows: SMFI, PTSMPFI, SMSCCI, PF-Hormel, PTD, SMBTL, SMHTL, SMBHK and BPI in 2017, 2016 and 2015 (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the combined statements of income; and, (iii) reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The following table illustrates the aggregation of the accounts of SMFB, SMB and GSMI and the elimination of intercompany transactions and reclassification of certain accounts resulting in the combined balances of the Group:

December 31, 2017

	Historical Consolidated Statement of Financial Position					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 7,044	₱ 28,297	₱ 199	₱ 35,540	₱ —	**₱ 35,540**
Trade and other receivables — net	11,573	4,995	1,715	18,283	(46)	**18,237**
Inventories	21,002	4,032	3,324	28,358	—	**28,358**
Current portion of biological assets — net	3,422	—	—	3,422	—	**3,422**
Prepaid expenses and other current assets	1,823	1,629	1,420	4,872	—	**4,872**
Total Current Assets	44,864	38,953	6,658	90,475	(46)	**90,429**
Noncurrent Assets						
Investments	—	41	346	387	12	**399**
Property, plant and equipment — net	27,412	18,732	4,998	51,142	(17)	**51,125**
Investment property — net	777	1,323	—	2,100	—	**2,100**
Biological assets — net of current portion	2,695	—	—	2,695	—	**2,695**
Goodwill — net	—	—	127	127	177	**304**
Other intangible assets — net	4,116	36,808	—	40,924	(138)	**40,786**
Deferred tax assets	801	1,317	673	2,791	—	**2,791**
Other noncurrent assets — net	1,209	12,109	515	13,833	(51)	**13,782**
Total Noncurrent Assets	37,010	70,330	6,659	113,999	(17)	**113,982**
	₱81,874	₱109,283	₱13,317	₱204,474	₱ (63)	**₱204,411**
LIABILITIES AND EQUITY						
Current Liabilities						
Notes payable	₱ 8,407	₱ —	₱ 5,532	₱ 13,939	₱ —	**₱ 13,939**
Trade payables and other current liabilities	23,837	9,032	2,010	34,879	(1,270)	**33,609**
Income and other taxes payable	745	3,685	110	4,540	1,194	**5,734**
Dividends payable	—	—	—	—	30	**30**
Current maturities of long-term debt — net of debt issue costs	—	—	114	114	—	**114**
Total Current Liabilities	32,989	12,717	7,766	53,472	(46)	**53,426**
Noncurrent Liabilities						
Long-term debt — net of current maturities and debt issue costs	—	34,665	—	34,665	—	**34,665**
Deferred tax liabilities	27	26	—	53	—	**53**
Other noncurrent liabilities	710	1,091	537	2,338	—	**2,338**
Total Noncurrent Liabilities	737	35,782	537	37,056	—	**37,056**
Total Liabilities	33,726	48,499	8,303	90,528	(46)	**90,482**
Equity						
Equity attributable to equity holders of the combined entities	45,905	57,501	5,014	108,420	(17)	**108,403**
Non-controlling interests	2,243	3,283	—	5,526	—	**5,526**
Total Equity	48,148	60,784	5,014	113,946	(17)	**113,929**
	₱81,874	₱109,283	₱13,317	₱204,474	₱ (63)	**₱204,411**

	Historical Consolidated Statement of Income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
SALES	₱117,449	₱113,255	₱20,892	₱251,596	₱ (7)	**₱251,589**
COST OF SALES	89,868	62,974	15,625	168,467	(7)	**168,460**
GROSS PROFIT	27,581	50,281	5,267	83,129	—	**83,129**
SELLING AND ADMINISTRATIVE EXPENSES	(17,655)	(19,120)	(3,960)	(40,735)	7	**(40,728)**
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(99)	(2,283)	(276)	(2,658)	—	**(2,658)**
INTEREST INCOME	111	534	24	669	—	**669**
EQUITY IN NET LOSSES OF JOINT VENTURES	—	—	(186)	(186)	—	**(186)**
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	5	—	(2)	3	(3)	**—**
OTHER INCOME (CHARGES) — Net	(125)	(324)	81	(368)	3	**(365)**
INCOME BEFORE INCOME TAX	9,818	29,088	948	39,854	7	**39,861**
INCOME TAX EXPENSE	2,912	8,377	346	11,635	—	**11,635**
NET INCOME	₱ 6,906	₱ 20,711	₱ 602	₱ 28,219	₱ 7	**₱ 28,226**
Attributable to:						
Equity holders of the combined entities	₱ 6,569	₱ 20,178	₱ 602	₱ 27,349	₱ 7	**₱ 27,356**
Non-controlling interests	337	533	—	870	—	**870**
	₱ 6,906	₱ 20,711	₱ 602	₱ 28,219	₱ 7	**₱ 28,226**

	Historical Consolidated Statement of Comprehensive income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
NET INCOME	₱6,906	₱20,711	₱ 602	₱28,219	₱ 7	**₱28,226**
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement gain (loss) on reserve for retirement plan	(256)	230	(123)	(149)	—	**(149)**
Income tax benefit (expense)	77	(61)	37	53	—	**53**
Share in other comprehensive income of joint ventures	—	—	67	67	—	**67**
	(179)	169	(19)	(29)	—	**(29)**
Item that may be reclassified to profit or loss						
Gain on exchange differences on translation of foreign operations	2	444	—	446	—	**446**
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	(177)	613	(19)	417	—	**417**
TOTAL COMPREHENSIVE INCOME — Net of tax	₱6,729	₱21,324	₱ 583	₱28,636	₱ 7	**₱28,643**
Attributable to:						
Equity holders of the combined entities	₱6,410	₱20,896	₱ 583	₱27,889	₱ 7	**₱27,896**
Non-controlling interests	319	428	—	747	—	**747**
	₱6,729	₱21,324	₱ 583	₱28,636	₱ 7	**₱28,643**

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱ 9,818	₱ 29,088	₱ 948	₱ 39,854	₱ 7	**₱ 39,861**
Adjustments for:						
Depreciation and amortization	3,380	3,523	630	7,533	82	**7,615**
Interest expense and other financing charges	99	2,283	276	2,658	—	**2,658**
Retirement costs	—	598	91	689	226	**915**
Provisions for impairment losses on receivables and write-down of inventories	135	773	224	1,132	(442)	**690**
Impairment losses on property, plant and equipment	—	534	—	534	—	**534**
Equity in net losses of joint ventures	—	—	186	186	—	**186**
Interest income	(111)	(534)	(24)	(669)	—	**(669)**
Gain on fair valuation of agricultural produce	(37)	—	—	(37)	—	**(37)**
Loss (gain) on sale of investments and property and equipment	(5)	3	2	—	—	**—**
Other charges (income) net of loss (gain) on derivative transactions	(146)	—	9	(137)	(42)	**(179)**
Operating income before working capital changes	13,133	36,268	2,342	51,743	(169)	**51,574**
Decrease (increase) in:						
Trade and other receivables	(330)	272	749	691	(60)	**631**
Inventories	(3,688)	716	(478)	(3,450)	(248)	**(3,698)**
Biological assets	(301)	—	—	(301)	—	**(301)**
Prepaid expenses and other current assets	(329)	(369)	(89)	(787)	—	**(787)**
Increase in trade payables and other current liabilities	6,038	1,180	63	7,281	11	**7,292**
Cash generated from operations	14,523	38,067	2,587	55,177	(466)	**54,711**
Income taxes paid	(2,434)	(8,349)	—	(10,783)	—	**(10,783)**
Interest paid	(85)	(2,279)	—	(2,364)	(283)	**(2,647)**
Contributions paid	—	(838)	(109)	(947)	(66)	**(1,013)**
Interest received	90	—	24	114	516	**630**
Net increase in retirement liability	160	—	—	160	(160)	**—**
Net cash flows provided by operating activities	12,254	26,601	2,502	41,357	(459)	**40,898**
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to property, plant and equipment and investment property	(10,995)	(1,747)	(217)	(12,959)	—	**(12,959)**
Increase in biological assets, intangible assets and other noncurrent assets	(3,623)	(4,827)	—	(8,450)	692	**(7,758)**
Interest received	—	516	—	516	(516)	**—**
Proceeds from sale of investment and property and equipment	296	11	—	307	—	**307**
Net cash flows used in investing activities	(14,322)	(6,047)	(217)	(20,586)	176	**(20,410)**

Forward

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from short-term borrowings	₱ 129,486	₱ —	₱ 64,909	₱ 194,395	₱ —	**₱ 194,395**
Payments of:						
Short-term borrowings	(126,205)	—	(67,374)	(193,579)	—	**(193,579)**
Long-term borrowings	—	(3,000)	(115)	(3,115)	—	**(3,115)**
Cash dividends paid	(1,847)	(11,299)	—	(13,146)	—	**(13,146)**
Additions to non-controlling interests	88	—	—	88	—	**88**
Proceeds from deposit for future stock subscription	60	—	—	60	—	**60**
Payment of share issuance costs	(10)	—	—	(10)	—	**(10)**
Interest paid	—	—	(283)	(283)	283	**—**
Net cash flows provided by (used in) financing activities	1,572	(14,299)	(2,863)	(15,590)	283	**(15,307)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	27	—	27	—	**27**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(496)	6,282	(578)	5,208	—	**5,208**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,540	22,015	777	30,332	—	**30,332**
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱ 7,044	₱ 28,297	₱ 199	₱ 35,540	₱ —	**₱ 35,540**

December 31, 2016

	Historical Consolidated Statement of Financial Position					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 7,540	₱ 22,015	₱ 777	₱ 30,332	₱ —	**₱ 30,332**
Trade and other receivables — net	11,252	5,058	2,467	18,777	(49)	**18,728**
Inventories	17,347	4,914	3,035	25,296	—	**25,296**
Current portion of biological assets — net	3,122	—	—	3,122	—	**3,122**
Prepaid expenses and other current assets	1,518	1,269	1,496	4,283	—	**4,283**
Total Current Assets	40,779	33,256	7,775	81,810	(49)	**81,761**
Noncurrent Assets						
Investments	—	41	465	506	12	**518**
Property, plant and equipment — net	17,671	18,579	5,357	41,607	(24)	**41,583**
Investment property — net	673	1,807	—	2,480	—	**2,480**
Biological assets — net of current portion	2,263	—	—	2,263	—	**2,263**
Goodwill — net	—	—	127	127	177	**304**
Other intangible assets — net	4,146	36,171	—	40,317	(124)	**40,193**
Deferred tax assets	878	1,435	821	3,134	—	**3,134**
Other noncurrent assets — net	605	10,302	617	11,524	(65)	**11,459**
Total Noncurrent Assets	26,236	68,335	7,387	101,958	(24)	**101,934**
	₱67,015	₱101,591	₱15,162	₱183,768	₱ (73)	**₱183,695**
LIABILITIES AND EQUITY						
Current Liabilities						
Notes payable	₱ 5,126	₱ —	₱ 7,998	₱ 13,124	₱ —	**₱ 13,124**
Trade payables and other current liabilities	17,992	8,098	1,896	27,986	(1,128)	**26,858**
Income and other taxes payable	424	3,435	176	4,035	1,053	**5,088**
Dividends payable	—	—	—	—	26	**26**
Current maturities of long-term debt — net of debt issue costs	—	2,998	115	3,113	—	**3,113**
Total Current Liabilities	23,542	14,531	10,185	48,258	(49)	**48,209**
Noncurrent Liabilities						
Long-term debt — net of current maturities and debt issue costs	—	34,619	114	34,733	—	**34,733**
Deferred tax liabilities	27	113	—	140	—	**140**
Other noncurrent liabilities	259	1,570	432	2,261	—	**2,261**
Total Noncurrent Liabilities	286	36,302	546	37,134	—	**37,134**
Total Liabilities	23,828	50,833	10,731	85,392	(49)	**85,343**
Equity						
Equity attributable to equity holders of the combined entities	41,351	47,665	4,431	93,447	(24)	**93,423**
Non-controlling interests	1,836	3,093	—	4,929	—	**4,929**
Total Equity	43,187	50,758	4,431	98,376	(24)	**98,352**
	₱67,015	₱101,591	₱15,162	₱183,768	₱ (73)	**₱183,695**

	Historical Consolidated Statement of Income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
SALES	₱111,586	₱ 97,160	₱18,572	₱227,318	₱(39)	**₱227,279**
COST OF SALES	85,952	52,309	13,886	152,147	(39)	**152,108**
GROSS PROFIT	25,634	44,851	4,686	75,171	—	**75,171**
SELLING AND ADMINISTRATIVE EXPENSES	(16,703)	(17,663)	(3,769)	(38,135)	7	**(38,128)**
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(132)	(2,684)	(396)	(3,212)	—	**(3,212)**
INTEREST INCOME	127	361	23	511	—	**511**
EQUITY IN NET LOSSES OF JOINT VENTURES	—	—	(97)	(97)	—	**(97)**
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	127	—	1	128	21	**149**
OTHER INCOME (CHARGES) — Net	(488)	154	60	(274)	(21)	**(295)**
INCOME BEFORE INCOME TAX	8,565	25,019	508	34,092	7	**34,099**
INCOME TAX EXPENSE	2,589	7,361	147	10,097	—	**10,097**
NET INCOME	₱ 5,976	₱ 17,658	₱ 361	₱ 23,995	₱ 7	**₱ 24,002**
Attributable to:						
Equity holders of the combined entities	₱ 5,682	₱ 17,217	₱ 361	₱ 23,260	₱ 7	**₱ 23,267**
Non-controlling interests	294	441	—	735	—	**735**
	₱ 5,976	₱ 17,658	₱ 361	₱ 23,995	₱ 7	**₱ 24,002**

	Historical Consolidated Statement of Comprehensive income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
NET INCOME	₱5,976	₱17,658	₱ 361	₱23,995	₱ 7	**₱24,002**
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement gain (loss) on reserve for retirement plan	246	650	(103)	793	—	**793**
Income tax benefit (expense)	(74)	(184)	32	(226)	—	**(226)**
Share in other comprehensive income of joint ventures	—	—	37	37	—	**37**
	172	466	(34)	604	—	**604**
Items that may be reclassified to profit or loss						
Gain on exchange differences on translation of foreign operations	20	942	—	962	—	**962**
Net gain on available-for-sale financial assets	1	—	—	1	—	**1**
	21	942	—	963	—	**963**
OTHER COMPREHENSIVE INCOME (LOSS) — Net of tax	193	1,408	(34)	1,567	—	**1,567**
TOTAL COMPREHENSIVE INCOME — Net of tax	₱6,169	₱19,066	₱ 327	₱25,562	₱ 7	**₱25,569**
Attributable to:						
Equity holders of the combined entities	₱5,877	₱18,435	₱ 327	₱24,639	₱ 7	**₱24,646**
Non-controlling interests	292	631	—	923	—	**923**
	₱6,169	₱19,066	₱ 327	₱25,562	₱ 7	**₱25,569**

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱ 8,565	₱ 25,019	₱ 508	₱ 34,092	₱ 7	**₱ 34,099**
Adjustments for:						
Depreciation and amortization	3,278	4,213	638	8,129	(201)	**7,928**
Interest expense and other financing charges	132	2,684	396	3,212	—	**3,212**
Retirement costs	—	598	65	663	178	**841**
Provisions for impairment losses on receivables and write-down of inventories	330	727	242	1,299	(345)	**954**
Impairment losses on other noncurrent assets	109	—	—	109	—	**109**
Equity in net losses of joint ventures	—	—	97	97	—	**97**
Interest income	(127)	(361)	(23)	(511)	—	**(511)**
Loss on fair valuation of agricultural produce	2	—	—	2	—	**2**
Gain on sale of investments and property and equipment	(127)	(21)	(1)	(149)	—	**(149)**
Other charges net of loss (gain) on derivative transactions	172	—	6	178	43	**221**
Operating income before working capital changes	12,334	32,859	1,928	47,121	(318)	**46,803**
Decrease (increase) in:						
Trade and other receivables	(1,245)	(327)	311	(1,261)	(8)	**(1,269)**
Inventories	(2,537)	(762)	(48)	(3,347)	(612)	**(3,959)**
Biological assets	197	—	—	197	—	**197**
Prepaid expenses and other current assets	746	(134)	(135)	477	—	**477**
Increase (decrease) in trade payables and other current liabilities	984	1,153	(328)	1,809	1	**1,810**
Cash generated from operations	10,479	32,789	1,728	44,996	(937)	**44,059**
Income taxes paid	(2,749)	(6,938)	(23)	(9,710)	—	**(9,710)**
Interest paid	(132)	(2,633)	—	(2,765)	(411)	**(3,176)**
Contributions paid	—	(1,566)	(96)	(1,662)	(695)	**(2,357)**
Interest received	102	—	23	125	355	**480**
Net decrease in retirement liability	(484)	—	—	(484)	484	**—**
Net cash flows provided by operating activities	7,216	21,652	1,632	30,500	(1,204)	**29,296**
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to property, plant and equipment and investment property	(6,467)	(1,218)	(382)	(8,067)	(4)	**(8,071)**
Decrease (increase) in biological assets, intangible assets and other noncurrent assets	(2,309)	(4,653)	12	(6,950)	1,152	**(5,798)**
Interest received	—	355	—	355	(355)	**—**
Proceeds from sale of investment and property and equipment	336	49	1	386	—	**386**
Net cash flows used in investing activities	(8,440)	(5,467)	(369)	(14,276)	793	**(13,483)**

Forward

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from short-term borrowings	₱ 126,376	₱ —	₱ 74,243	₱ 200,619	₱ —	**₱ 200,619**
Payments of:						
Short-term borrowings	(124,833)	—	(74,652)	(199,485)	—	**(199,485)**
Long-term borrowings	(70)	—	(114)	(184)	—	**(184)**
Cash dividends paid	(1,997)	(10,297)	—	(12,294)	—	**(12,294)**
Interest paid	—	—	(411)	(411)	411	**—**
Collection of subscription receivable	—	—	1	1	—	**1**
Net cash flows used in financing activities	(524)	(10,297)	(933)	(11,754)	411	**(11,343)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4	277	1	282	—	**282**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,744)	6,165	331	4,752	—	**4,752**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,284	15,850	446	25,580	—	**25,580**
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱ 7,540	₱ 22,015	₱ 777	₱ 30,332	₱ —	**₱ 30,332**

December 31, 2015

	Historical Consolidated Statement of Financial Position					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 9,284	₱15,850	₱ 446	₱ 25,580	₱ —	**₱ 25,580**
Trade and other receivables — net	10,164	5,124	2,882	18,170	(42)	**18,128**
Inventories	14,997	3,766	3,090	21,853	—	**21,853**
Current portion of biological assets — net	3,319	—	—	3,319	—	**3,319**
Prepaid expenses and other current assets	2,268	1,195	1,472	4,935	—	**4,935**
Total Current Assets	40,032	25,935	7,890	73,857	(42)	**73,815**
Noncurrent Assets						
Investments	—	60	525	585	11	**596**
Property, plant and equipment — net	12,435	18,759	5,575	36,769	(31)	**36,738**
Investment property — net	636	1,540	—	2,176	—	**2,176**
Biological assets — net of current portion	2,177	—	—	2,177	—	**2,177**
Goodwill — net	—	—	127	127	177	**304**
Other intangible assets — net	4,255	35,987	—	40,242	(133)	**40,109**
Deferred tax assets	872	1,574	810	3,256	—	**3,256**
Other noncurrent assets — net	630	9,236	708	10,574	(55)	**10,519**
Total Noncurrent Assets	21,005	67,156	7,745	95,906	(31)	**95,875**
	₱61,037	₱93,091	₱15,635	₱169,763	₱ (73)	**₱169,690**
LIABILITIES AND EQUITY						
Current Liabilities						
Notes payable	₱ 3,576	₱ —	₱ 8,406	₱ 11,982	₱ —	**₱ 11,982**
Trade payables and other current liabilities	17,004	7,389	2,236	26,629	(1,249)	**25,380**
Income and other taxes payable	505	2,874	185	3,564	1,184	**4,748**
Dividends payable	—	—	—	—	23	**23**
Current maturities of long-term debt — net of debt issue costs	65	—	114	179	—	**179**
Total Current Liabilities	21,150	10,263	10,941	42,354	(42)	**42,312**
Noncurrent Liabilities						
Long-term debt — net of current maturities and debt issue costs	—	37,566	229	37,795	—	**37,795**
Deferred tax liabilities	26	114	—	140	—	**140**
Other noncurrent liabilities	845	3,157	361	4,363	—	**4,363**
Total Noncurrent Liabilities	871	40,837	590	42,298	—	**42,298**
Total Liabilities	22,021	51,100	11,531	84,652	(42)	**84,610**
Equity						
Equity attributable to equity holders of the combined entities	37,272	39,369	4,104	80,745	(31)	**80,714**
Non-controlling interests	1,744	2,622	—	4,366	—	**4,366**
Total Equity	39,016	41,991	4,104	85,111	(31)	**85,080**
	₱61,037	₱93,091	₱15,635	₱169,763	₱ (73)	**₱169,690**

	Historical Consolidated Statement of Income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
SALES	₱106,860	₱ 82,374	₱16,555	₱205,789	₱(393)	**₱205,396**
COST OF SALES	84,109	44,811	12,182	141,102	(405)	**140,697**
GROSS PROFIT	22,751	37,563	4,373	64,687	12	**64,699**
SELLING AND ADMINISTRATIVE EXPENSES	(15,107)	(14,932)	(3,736)	(33,775)	(72)	**(33,847)**
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(389)	(2,597)	(486)	(3,472)	—	**(3,472)**
INTEREST INCOME	181	261	30	472	—	**472**
EQUITY IN NET LOSSES OF JOINT VENTURES	—	—	(110)	(110)	—	**(110)**
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	98	—	126	224	9	**233**
OTHER CHARGES — Net	(565)	(956)	(50)	(1,571)	(11)	**(1,582)**
INCOME BEFORE INCOME TAX	6,969	19,339	147	26,455	(62)	**26,393**
INCOME TAX EXPENSE (BENEFIT)	2,217	5,821	510	8,548	(9)	**8,539**
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	4,752	13,518	(363)	17,907	(53)	**17,854**
NET LOSS AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	—	—	(22)	(22)	22	**—**
NET INCOME (LOSS)	₱ 4,752	₱ 13,518	₱ (385)	₱ 17,885	₱ (31)	**₱ 17,854**
Attributable to:						
Equity holders of the combined entities	₱ 4,499	₱ 13,251	₱ (385)	₱ 17,365	₱ (31)	**₱ 17,334**
Non-controlling interests	253	267	—	520	—	**520**
	₱ 4,752	₱ 13,518	₱ (385)	₱ 17,885	₱ (31)	**₱ 17,854**

	Historical Consolidated Statement of Comprehensive income					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
NET INCOME (LOSS)	₱4,752	₱13,518	₱(385)	₱17,885	₱(31)	**₱17,854**
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement loss on reserve for retirement plan	(133)	(309)	(183)	(625)	—	**(625)**
Income tax benefit	39	80	55	174	—	**174**
Share in other comprehensive loss of joint ventures	—	—	(25)	(25)	—	**(25)**
	(94)	(229)	(153)	(476)	—	**(476)**
Items that may be reclassified to profit or loss						
Gain on exchange differences on translation of foreign operations	49	156	—	205	—	**205**
Net gain on available-for-sale financial assets	1	—	—	1	—	**1**
	50	156	—	206	—	**206**
OTHER COMPREHENSIVE LOSS — Net of tax	(44)	(73)	(153)	(270)	—	**(270)**
TOTAL COMPREHENSIVE INCOME (LOSS) — Net of tax	₱4,708	₱13,445	₱(538)	₱17,615	₱(31)	**₱17,584**
Attributable to:						
Equity holders of the combined entities	₱4,458	₱13,106	₱(538)	₱17,026	₱(31)	**₱16,995**
Non-controlling interests	250	339	—	589	—	**589**
	₱4,708	₱13,445	₱(538)	₱17,615	₱(31)	**₱17,584**

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM OPERATING ACTIVITIES						
Income (loss) before income tax from:						
Continuing operations	₱ 6,969	₱19,339	₱ 147	₱ 26,455	₱ (62)	**₱ 26,393**
Discontinued operations	—	—	(31)	(31)	31	**—**
	6,969	19,339	116	26,424	(31)	**26,393**
Adjustments for:						
Depreciation and amortization	3,042	2,928	645	6,615	29	**6,644**
Interest expense and other financing charges	389	2,597	486	3,472	—	**3,472**
Retirement costs	—	590	56	646	182	**828**
Provisions for (reversal of) impairment losses on receivables and write-down of inventories	330	(2)	480	808	(176)	**632**
Impairment losses on property, plant and equipment, goodwill and other noncurrent assets	253	1,011	—	1,264	100	**1,364**
Equity in net losses of joint ventures	—	—	110	110	—	**110**
Interest income	(181)	(261)	(30)	(472)	—	**(472)**
Gain on fair valuation of agricultural produce	(29)	—	—	(29)	—	**(29)**
Gain on sale of property and equipment	(98)	(9)	(163)	(270)	37	**(233)**
Other charges net of loss (gain) on derivative transactions	29	—	3	32	83	**115**
Operating income before working capital changes	10,704	26,193	1,703	38,600	224	**38,824**
Decrease (increase) in:						
Trade and other receivables	688	1,123	800	2,611	(8)	**2,603**
Inventories	1,127	(361)	(624)	142	(242)	**(100)**
Biological assets	1	—	—	1	—	**1**
Prepaid expenses and other current assets	1,131	(183)	60	1,008	—	**1,008**
Increase (decrease) in trade payables and other current liabilities	785	1,137	(70)	1,852	—	**1,852**
Cash generated from operations	14,436	27,909	1,869	44,214	(26)	**44,188**
Income taxes paid	(2,069)	(5,833)	(30)	(7,932)	—	**(7,932)**
Interest paid	(392)	(2,525)	—	(2,917)	(499)	**(3,416)**
Contributions paid	—	(1,028)	(97)	(1,125)	(351)	**(1,476)**
Interest received	149	—	27	176	258	**434**
Net decrease in retirement liability	(129)	—	—	(129)	129	**—**
Net cash flows provided by operating activities	11,995	18,523	1,769	32,287	(489)	**31,798**

Forward

	Historical Consolidated Statement of Cash Flows					
	SMFB	SMB	GSMI	Total	Eliminations/ Reclassifications	Combined Balances
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to property, plant and equipment and investment property	₱ (3,128)	₱ (1,030)	₱ (233)	₱ (4,391)	₱ —	**₱ (4,391)**
Decrease (increase) in biological assets, intangible assets and other noncurrent assets	(2,679)	(2,292)	38	(4,933)	686	**(4,247)**
Proceeds from sale of NAB assets	—	—	438	438	(438)	**—**
Interest received	—	258	—	258	(258)	**—**
Proceeds from sale of property and equipment	103	12	140	255	—	**255**
Net cash flows provided by (used in) investing activities	(5,704)	(3,052)	383	(8,373)	(10)	**(8,383)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from:						
Short-term borrowings	265,898	—	81,992	347,890	—	**347,890**
Long-term borrowings	65	—	—	65	—	**65**
Payments of:						
Short-term borrowings	(271,071)	—	(83,670)	(354,741)	—	**(354,741)**
Long-term borrowings	(4,500)	—	(114)	(4,614)	—	**(4,614)**
Issuance of perpetual series “2” preferred shares, net of transaction costs	14,885	—	—	14,885	—	**14,885**
Divestment of non-controlling interests	556	—	—	556	—	**556**
Additions to non-controlling interests	15	—	—	15	—	**15**
Interest paid	—	—	(499)	(499)	499	**—**
Redemption of outstanding common shares	—	(6)	—	(6)	—	**(6)**
Collection of subscription receivable	—	—	5	5	—	**5**
Cash dividends paid	(2,068)	(9,708)	—	(11,776)	—	**(11,776)**
Redemption of outstanding preferred shares	(15,000)	—	—	(15,000)	—	**(15,000)**
Net cash flows used in financing activities	(11,220)	(9,714)	(2,286)	(23,220)	499	**(22,721)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3)	207	—	204	—	**204**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,932)	5,964	(134)	898	—	**898**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,216	9,886	580	24,682	—	**24,682**
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱ 9,284	₱15,850	₱ 446	₱ 25,580	₱ —	**₱ 25,580**

SAN MIGUEL FOOD AND BEVERAGE GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS — (Continued)

	Historical Consolidated Statements of Changes in Equity														
	SMFB			SMB			GSMI			Eliminations/Reclassifications			Combined Balances		
	Equity Attributable to Equity Holders of SMFB	Non-controlling Interests	Total Equity	Equity Attributable to Equity Holders of SMB	Non-controlling Interests	Total Equity	Equity Attributable to Equity Holders of GSMI	Non-controlling Interests	Total Equity	Equity Attributable to Equity Holders of SMFB, SMB and GSMI	Non-controlling Interests	Total Equity	Equity Attributable to Equity Holders of the Combined Entities	Non-controlling Interests	Total Equity
As of January 1, 2015	₱ 34,235	₱1,728	₱ 35,963	₱ 35,788	₱2,466	₱ 38,254	₱4,642	₱—	₱4,642	₱ —	₱—	₱ —	₱ 74,665	₱4,194	₱ 78,859
Net income (loss)	4,499	253	4,752	13,251	267	13,518	(385)	—	(385)	(31)	—	(31)	17,334	520	17,854
Other comprehensive income (loss) — net of tax	(41)	(3)	(44)	(145)	72	(73)	(153)	—	(153)	—	—	—	(339)	69	(270)
Redemption of outstanding preferred shares	(15,000)	—	(15,000)	—	—	—	—	—	—	—	—	—	(15,000)	—	(15,000)
Issuance of perpetual series "2" preferred shares, net of transaction costs	14,885	—	14,885	—	—	—	—	—	—	—	—	—	14,885	—	14,885
Divestment of non-controlling interests	430	126	556	—	—	—	—	—	—	—	—	—	430	126	556
Additions to non-controlling interests	—	40	40	—	—	—	—	—	—	—	—	—	—	40	40
Cash dividends	(1,736)	(400)	(2,136)	(9,525)	(183)	(9,708)	—	—	—	—	—	—	(11,261)	(583)	(11,844)
As of December 31, 2015	37,272	1,744	39,016	39,369	2,622	41,991	4,104	—	4,104	(31)	—	(31)	80,714	4,366	85,080
Net income	5,682	294	5,976	17,217	441	17,658	361	—	361	7	—	7	23,267	735	24,002
Other comprehensive income (loss) — net of tax	195	(2)	193	1,218	190	1,408	(34)	—	(34)	—	—	—	1,379	188	1,567
Cash dividends	(1,798)	(200)	(1,998)	(10,139)	(160)	(10,299)	—	—	—	—	—	—	(11,937)	(360)	(12,297)
As of December 31, 2016	41,351	1,836	43,187	47,665	3,093	50,758	4,431	—	4,431	(24)	—	(24)	93,423	4,929	98,352
Net income	6,569	337	6,906	20,178	533	20,711	602	—	602	7	—	7	27,356	870	28,226
Other comprehensive income (loss) — net of tax	(159)	(18)	(177)	718	(105)	613	(19)	—	(19)	—	—	—	540	(123)	417
Additions to non-controlling interests	—	88	88	—	—	—	—	—	—	—	—	—	—	88	88
Share issuance costs	(7)	—	(7)	—	—	—	—	—	—	—	—	—	(7)	—	(7)
Cash dividends	(1,849)	—	(1,849)	(11,060)	(238)	(11,298)	—	—	—	—	—	—	(12,909)	(238)	(13,147)
As of December 31, 2017	**₱ 45,905**	**₱2,243**	**₱ 48,148**	**₱ 57,501**	**₱3,283**	**₱ 60,784**	**₱5,014**	**₱—**	**₱5,014**	**₱(17)**	**₱—**	**₱(17)**	**₱108,403**	**₱5,526**	**₱113,929**

The following eliminations and reclassification adjustments have been made resulting in the combined balances of the Group:

i. Intercompany transactions have been eliminated in the combined financial statements as follows:

	2017	2016	2015
Statements of Financial Position			
Trade and other receivables — net	**₱(46)**	₱(49)	₱ (42)
Trade payables and other current liabilities	**46**	49	42
Statements of Income			
Sales	**7**	39	466
Cost of sales	**(7)**	(39)	(466)

ii. As discussed in Note 5, the sale of NAB business by GSMI to SMB has been eliminated in the combined financial statements. The Group also reversed the reclassification entry taken up by GSMI to present discontinued operations separately from continuing operations arising from the sale and transfer of certain NAB assets to SMB.

	2017	2016	2015
Statements of Financial Position			
Property, plant and equipment — net	**₱(17)**	₱(24)	₱(31)
Equity attributable to equity holders of the combined entities	**17**	24	31
Statements of Income			
Sales	**—**	—	(73)
Cost of sales	**—**	—	61
Selling and administrative expenses	**(7)**	(7)	72
Other charges — net	**—**	—	2
Income tax expense	**—**	—	(9)
Net loss after income tax from discontinued operations	**—**	—	(22)

iii. Certain accounts in the consolidated SMFB, SMB and GSMI were reclassified for consistency of combined financial statements presentation. These reclassifications had no effect on the reported financial performance for any period presented.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the combined financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

The Group has adopted the following amendments to PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments resulted in improved disclosures about the net debt of an entity relevant to the understanding of its cash flows. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes — e.g., by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.
- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a

comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities,* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the combined financial statements.

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the combined financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the combined financial statements.

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates,* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

  The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is required to be applied for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  The Group will adopt the new standard on the effective date and will not restate comparative information. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect significant impact on its combined statement of financial position, except for the effect of applying the expected credit loss model in estimating impairment which will result in a decrease in the allowance for impairment of receivables amounting to ₱144 and increase in retained earnings amounting to ₱100 as of January 1, 2018.

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards:

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments — i.e. the modified grant date method; (b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is recognized in the statements of income immediately.

The amendments can be applied prospectively for annual periods beginning on or after January 1, 2018, with retrospective or early application permitted.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee — 31, *Revenue — Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedients. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

  The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. Based on the assessment, PFRS 15 has no significant impact on the combined statement of financial position of the Group.

- Transfers of Investment Property *(Amendments to PAS 40, Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use — i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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 introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of the new standard.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments,* 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 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 Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's 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.

  The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

  The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, 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.

- Prepayment Features with Negative Compensation *(Amendments to PFRS 9)*. The amendments cover the following areas: (a) *Prepayment features with negative compensation*. 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 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 that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset — i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- Long-term Interests (LTI) in Associates and Joint Ventures *(Amendments to PAS 28)*. The amendment requires 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 long-term interests 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 PFRS 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. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the combined statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the combined statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the combined statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the

transaction price and model value is only recognized in the combined statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets classified as HTM investments as of December 31, 2017, 2016 and 2015.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the combined statements of income as incurred. Fair value changes and realized gains or losses are recognized in the combined statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and in equity. Any interest earned is recognized as part of "Interest income" account in the combined statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the combined statements of income when the right to receive payment has been established.

The Group's derivative assets are classified under this category (Notes 11, 34 and 35).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the combined statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the combined statements of income. Gains or losses are recognized in the combined statements of income when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category (Notes 7, 8, 16, 34 and 35).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the combined statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the combined statements of changes in equity are transferred to and recognized in the combined statements of income.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity securities are classified under this category (Notes 12, 34 and 35).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. 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 profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the combined statements of income.

The Group's derivative liabilities are classified under this category (Notes 18, 34 and 35).

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 rate 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 combined statements of income. Gains and losses are recognized in the combined statements of income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities are included under this category (Notes 17, 18, 19, 34 and 35).

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the combined statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the combined statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of December 31, 2017, 2016 and 2015.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in equity. The ineffective portion is immediately recognized in the combined statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the combined statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the combined statements of changes in equity are transferred to the combined statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the combined statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the combined statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the combined statements of changes in equity is recognized in the combined statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2017, 2016 and 2015.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the combined statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the combined statements of changes in equity is transferred to and recognized in the combined statements of income.

The Group has no hedge of a net investment in a foreign operation as of December 31, 2017, 2016 and 2015.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the combined statements of income.

Embedded Derivatives

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

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

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

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

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

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 not bifurcated any embedded derivatives as of December 31, 2017, 2016 and 2015.

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 canceled, 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 combined statements of income.

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the combined statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the combined statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the combined statements of changes in equity, is transferred from other comprehensive income and recognized in the combined statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the combined statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the combined statements of income, the impairment loss is reversed through the combined statements of income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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.

Debt Issue Costs

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 rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the combined statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the combined 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.

Inventories

Finished goods, goods in process, materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	—	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Materials and supplies	—	at cost, using the moving-average method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Materials and Supplies. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Containers (i.e., Returnable Bottles and Shells). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers" under "Other noncurrent assets" account in the combined statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the combined statements of income.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding stocks, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock, and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs — sow	3 years or 6 births, whichever is shorter
Hogs — boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 -44 weeks

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the combined statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the combined statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the combined statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the combined statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the combined statements of income.

- *Goodwill in a Business Combination*

  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*

  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the combined statements of income.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control is similar to those necessary to determine control over subsidiaries.

The Group’s investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group’s share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group’s share in profit or loss of a joint venture is recognized as “Equity in net losses of joint ventures” account in the combined statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group’s proportionate interest in the joint venture arising from changes in the joint venture’s other comprehensive income. The Group’s share on these changes is recognized as “Share in other comprehensive income (loss) of joint ventures" account in the combined statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in joint venture and then recognizes the loss as part of "Equity in net losses of joint ventures" account in the combined statements of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in a joint venture upon loss of joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the combined statements of income.

The financial statements of the joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	2 - 50
Furniture, other equipment and others	2 - 20
Leasehold improvements	3 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the combined statements of income in the period of retirement and disposal.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the combined statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the combined statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the combined statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Land use rights	42 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of some licenses, trademarks and brand names, formulas and recipes, and franchise to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the combined statements of income when the asset is derecognized.

Impairment of Non-financial Assets

The carrying amounts of investments in joint ventures, property, plant and equipment, investment property, biological assets — net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the combined statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the combined statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Equity

The equity was presented on the basis of the aggregation of the net assets of the San Miguel Food and Beverage Group. The amounts which reflect the carrying amount of investments of SMC and other equity holders in the combined entities are recognized as “Equity attributable to equity holders of the combined entities”, while carrying amount of net assets of the consolidated subsidiaries of each of the combined entities attributable to shareholders other than SMFB, SMB and GSMI are presented as “Non-controlling interests”. The amounts reflected in movements in equity refer to results of operations, movements of items of other comprehensive income, changes in the capital structure, additions and divestments of non-controlling interests and payments of dividends to shareholders, of each of the combined entities. In addition, since the Group was not an existing legal group during the periods presented and does not have capital stock for the combined reporting entity, earnings per share in accordance with PAS 33, *Earnings per share*, is not applicable.

Capital Stock

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the issuer, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the issuer.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the combined statements of income as accrued.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the “Additional paid-in capital” account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the issuer, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancelation of the issuer’s own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Goods

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

Revenue from Services

Revenue is recognized upon performance of services, with reference to the stage of completion, which is manufacturing in favor of the customer, where such production inputs are in the name of the customer.

Revenue from Agricultural Produce

Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Revenue from Terminal Handling

Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from usage fees is recognized based on the gross weight of vessels entering the port multiplied by a predetermined rate.

Others

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right to receive the payment is established.

Revenue from tolling fees is recognized when related services are rendered.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or loss on sale of investments in shares of stock is recognized when the Group disposes of its investment in shares of stock of a subsidiary and joint venture and AFS financial assets. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Share-based Payment Transactions

The Employee Stock Purchase Plan (ESPP) of SMFB and SMB are under the SMC ESPP while GSMI has its own ESPP. Under the ESPP of SMC and GSMI, executives and employees of the Group receive remuneration in the form of share-based payment transaction, whereby the employees of SMFB and SMB render services as consideration for equity instruments of SMC and employees of GSMI for equity instruments of GSMI. Such transaction is handled centrally by SMC and GSMI, respectively.

Share-based payment transaction in which SMC or GSMI grants option rights to its equity instruments directly to employees of SMFB and SMB or GSMI, respectively, are accounted for as equity-settled transactions. SMC charges SMFB and SMB the costs related to such transaction. The Group recognized such costs in the combined statements of income.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based payment transaction at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC and GSMI's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancelation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the canceled award and designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset and finance lease liability is measured at an amount equal to the lower of its fair value and present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for at cost less accumulated depreciation and impairment loss, if any. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Capitalized leased assets are depreciable over the shorter of the lease term and useful life in accordance with the relevant depreciation policy for property, plant and equipment and intangible assets.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the combined statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the combined statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the combined statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to combined statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the combined statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the combined statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and in the combined statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investments in joint ventures that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and in the combined statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits — Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the combined statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the combined statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the combined financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the combined financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in combination.

Contingencies

Contingent liabilities are not recognized in the combined financial statements. They are disclosed in the notes to the combined financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the combined financial statements but are disclosed in the notes to the combined financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the combined financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the combined financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the combined financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the combined financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the combined financial statements:

Operating Lease Commitments — Group as a Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized as part of “Other charges — net” account in the combined statements of income amounted to ₱153, ₱131 and ₱90 in 2017, 2016 and 2015, respectively (Notes 29 and 31).

Rent expense recognized in the combined statements of income amounted to ₱3,222 in 2017 and ₱2,822 both in 2016 and 2015 (Notes 23, 24 and 31).

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing and administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing and administrative purposes. If the portion can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Evaluating Control over its Investee. Determining whether the Group has control in an investee requires significant judgment. Although SMB owns less than 50% of the voting rights of BPI (Note 5), management has determined that SMB controls this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee.

SMB receives substantially all of the returns related to BPI’s operations and net assets and has the current ability to direct BPI’s activities that most significantly affect the returns. SMB controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, GSMI classified its joint arrangements in Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading (TGT) as joint ventures (Note 12).

Evaluating Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classifying Financial Instruments. The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the combined statements of financial position.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 37).

Estimates and Assumptions

The key estimates and assumptions used in the combined financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the combined financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 9, 10, 11, 12, 14, 15, 16, 18 and 35.

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables and Deposits. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits, included as part of "Other noncurrent assets" account in the combined statements of financial position, amounted to ₱1,716, ₱1,850 and ₱1,474 as of December 31, 2017, 2016 and 2015, respectively (Notes 8 and 16).

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted to ₱18,811, ₱18,875 and ₱18,275 as of December 31, 2017, 2016 and 2015, respectively (Notes 8, 16, 34 and 35).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories to net realizable value amounted to ₱697, ₱486 and ₱805 in 2017, 2016 and 2015, respectively (Notes 9, 23 and 24).

The carrying amount of inventories amounted to ₱28,358, ₱25,296 and ₱21,853 as of December 31, 2017, 2016 and 2015, respectively (Note 9).

Impairment of AFS Financial Assets. AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2017, 2016 and 2015.

The carrying amount of AFS financial assets amounted to ₱53 as of December 31, 2017 and 2016 and ₱71 as of December 31, 2015 (Notes 12, 34 and 35).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to ₱63,199, ₱52,616 and ₱47,728 as of December 31, 2017, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to ₱53,070, ₱50,628 and ₱48,125 as of December 31, 2017, 2016 and 2015, respectively (Note 13).

Investment property, net of accumulated depreciation and amortization, amounted to ₱2,108, ₱2,488 and ₱2,184 as of December 31, 2017, 2016 and 2015, respectively. Accumulated depreciation and amortization of investment property amounted to ₱333, ₱503 and ₱316 as of December 31, 2017, 2016 and 2015, respectively (Note 14).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the combined statements of financial position amounted to ₱12,107, ₱10,339 and ₱9,354 as of December 31, 2017, 2016 and 2015, respectively. Accumulated amortization of deferred containers amounted to ₱16,050, ₱13,967 and ₱11,593 as of December 31, 2017, 2016 and 2015, respectively (Note 16).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. The Group estimates the useful lives of intangible assets with finite useful lives based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to technical obsolescence and legal or other limits on the use of the assets. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to ₱1,360, ₱984 and ₱1,097 as of December 31, 2017, 2016 and 2015, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to ₱1,814, ₱1,461 and ₱1,230 as of December 31, 2017, 2016 and 2015, respectively (Note 15).

Impairment of Goodwill, Licenses, Trademarks and Brand Names, Formulas and Recipes, and Franchise with Indefinite Useful Lives. The Group determines whether goodwill, licenses, trademarks and brand names, formulas and recipes, and franchise are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses, trademarks and brand names, formulas and recipes, and franchise. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses, trademarks and brand names, formulas and recipes, and franchise and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to ₱304 as of December 31, 2017, 2016 and 2015 (Note 15).

The combined carrying amounts of licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives amounted to ₱39,426, ₱39,209 and ₱39,012 as of December 31, 2017, 2016 and 2015, respectively (Note 15).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to ₱2,791, ₱3,134 and ₱3,256 as of December 31, 2017, 2016 and 2015, respectively (Note 20).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments in joint ventures, property, plant and equipment, investment property, biological assets — net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the combined financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on non-financial assets amounted to ₱12,551, ₱11,694 and ₱11,426 as of December 31, 2017, 2016 and 2015, respectively (Notes 12, 13, 14, 15 and 16).

The combined carrying amounts of investments in joint ventures, property, plant and equipment, investment property, biological assets — net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets amounted to ₱69,797, ₱58,213 and ₱52,340 as of December 31, 2017, 2016 and 2015, respectively (Notes 10, 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 32 to the combined financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to ₱17,697, ₱15,836 and ₱14,724 as of December 31, 2017, 2016 and 2015, respectively (Note 32).

Asset Retirement Obligation. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2017, 2016 and 2015. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

5. Investments in Shares of Stock of Subsidiaries and Acquisition of Business

The following are the developments relating to the combined entities and their respective investments in shares of stock of subsidiaries:

a. In January 2015, SMPFIL signed an agreement for the purchase from Hormel Netherlands B. V. (Hormel) of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats.

   Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel's non-controlling interest amounting to ₱126 as of January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN's obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations. This resulted in the recognition of other equity reserves amounting to ₱383 presented as part of "Equity attributable to equity holders of the combined entities" account in the combined statements of changes in equity.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd. in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of SMHVN.

b. On December 2, 2015, the BOD and shareholders of SMMI approved, among others, the: (i) increase in SMMI's authorized capital stock by ₱2,000, equivalent to 20,000,000 common shares at ₱100.00 par value per share, and (ii) declaration of stock dividend in favor of SMFB amounting to ₱2,000, the equivalent number of common shares of which totalling 20,000,000 will be taken from the proposed increase in authorized capital stock.

   On March 11, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMMI's authorized capital stock from ₱2,000, consisting of 20,000,000 common shares at a par value of ₱100.00 per share, to ₱4,000, consisting of 40,000,000 common shares at the same par value.

c. On December 2, 2015, the BOD and shareholders of PF-Hormel approved the: (i) increase in PF-Hormel's authorized capital stock by ₱2,000, equivalent to 2,000,000,000 common shares at ₱1.00 par value per share, and (ii) declaration of stock dividend in favor of existing shareholders amounting to ₱2,000, the equivalent number of common shares of which totalling 2,000,000,000 will be taken from the proposed increase in authorized capital stock.

   On April 15, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in PF-Hormel's authorized capital stock from ₱1,500, consisting of 1,500,000,000 common shares at a par value of ₱1.00 per share, to ₱3,500, consisting of 3,500,000,000 common shares at the same par value.

d. On June 28, 2016, the BOD and shareholders of Magnolia approved, among others, the: (i) increase in Magnolia's authorized capital stock by ₱2,000, equivalent to 2,000,000,000 common shares at ₱1.00 par value per share, and (ii) declaration of stock dividend in favor of SMFB amounting to ₱600, equivalent number of common shares of which totaling 600,000,000 will be taken from the proposed increase in authorized capital stock.

   On December 23, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in Magnolia's authorized capital stock from ₱1,000, consisting of 1,000,000,000 common shares at a par value of ₱1.00 per share, to ₱3,000, consisting of 3,000,000,000 common shares at the same par value.

e. On June 8, 2017, the BOD and shareholders of SMFI approved, among others, the: (i) increase in SMFI's authorized capital stock by ₱5,000, equivalent to 50,000,000 common shares at ₱100.00 par value per share, and (ii) amendment to Article VII of SMFI's Articles of Incorporation to reflect such increase.

   On January 10, 2018, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMFI's authorized capital stock, from ₱10,000, consisting of 85,000,000 common shares and 15,000,000 preferred shares both with par value of ₱100.00 per share, to ₱15,000 consisting of 135,000,000 common shares and 15,000,000 preferred shares at the same par value.

f. SMB acquired the assets of GSMI used in its NAB business under a deed of sale for the property and equipment used in the NAB business (NAB PPE) executed on April 1, 2015 (as amended on April 30, 2015) and a deed of sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials used in the NAB business executed on April 30, 2015. The purchase price for the GSMI assets is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties.

   The acquisition of the NAB assets of GSMI expanded SMB's business in the non-alcoholic beverage category in line with its multi-beverage strategy. The acquisition further strengthened SMB's potential as it taps new sources of growth in the beverage industry while fortifying leadership in the beer business, thereby ensuring superior long-term value to SMB's stakeholders.

   The sale of NAB assets from GSMI to SMB in 2015 was eliminated and reclassified to continuing operations in the combined financial statements (Note 2).

The details of the Group's material non-controlling interests are as follows:

	2017							
	PF-HORMEL	**SMSCCI**	**PTSMPFI**	**BPI**	**SMBHK**	**PTD**	**SMBTL**	**SMHTL**
Percentage of non-controlling interests	**40%**	**30%**	**25%**	**60%**	**34%**	**42%**	**51%**	**51%**
Carrying amount of non-controlling interests	**₱2,306**	**₱(57)**	**₱(10)**	**₱482**	**₱1,279**	**₱1,755**	**₱(1,117)**	**₱18**
Net income (loss) attributable to non-controlling interests	**₱ 390**	**₱(36)**	**₱(17)**	**₱ 11**	**₱ 34**	**₱ 444**	**₱ (19)**	**₱—**
Other comprehensive income (loss) attributable to non-controlling interests	**₱ (18)**	**₱ —**	**₱ (1)**	**₱ —**	**₱ 16**	**₱ (21)**	**₱ (99)**	**₱ 2**
Dividends paid to non-controlling interests	**₱ —**	**₱ —**	**₱ —**	**₱ 12**	**₱ —**	**₱ 225**	**₱ —**	**₱—**

	2016							
	PF-HORMEL	SMSCCI	PTSMPFI	BPI	SMBHK	PTD	SMBTL	SMHTL
Percentage of non-controlling interests	40%	30%	25%	60%	34%	42%	51%	51%
Carrying amount of non-controlling interests	₱1,933	₱(109)	₱ 8	₱483	₱1,224	₱1,555	₱(996)	₱17
Net income (loss) attributable to non-controlling interests	₱ 367	₱ (48)	₱(26)	₱ 11	₱ 14	₱ 373	₱ 4	₱—
Other comprehensive income (loss) attributable to non-controlling interests	₱ (3)	₱ —	₱ 1	₱ —	₱ 13	₱ 36	₱ (7)	₱—
Dividends paid to non-controlling interests	₱ 200	₱ —	₱ —	₱115	₱ —	₱ 149	₱ —	₱—

	2015							
	PF-HORMEL	SMSCCI	PTSMPFI	BPI	SMBHK	PTD	SMBTL	SMHTL
Percentage of non-controlling interests	40%	30%	25%	60%	34%	42%	51%	51%
Carrying amount of non-controlling interests	₱1,769	₱(61)	₱ 33	₱483	₱1,132	₱1,209	₱(940)	₱16
Net income (loss) attributable to non-controlling interests	₱ 347	₱(64)	₱(18)	₱ 11	₱ (34)	₱ 269	₱ (34)	₱—
Other comprehensive income (loss) attributable to non-controlling interests	₱ (3)	₱ —	₱ —	₱ —	₱ (12)	₱ (113)	₱ 85	₱ 1
Dividends paid to non-controlling interests	₱ 400	₱ —	₱ —	₱445	₱ 28	₱ 572	₱ (12)	₱—

The following are the financial information of investments in subsidiaries with material non-controlling interests:

	2017							
	PF-HORMEL	SMSCCI	PTSMPFI	BPI	SMBHK	PTD	SMBTL	SMHTL
Current assets	₱ 8,264	₱ 416	₱ 157	₱ 276	₱ 2,101	₱4,113	₱ 2,381	₱ 6
Noncurrent assets	7,058	85	74	1,811	3,640	840	2,223	190
Current liabilities	(9,411)	(491)	(260)	(47)	(877)	(536)	(2,380)	—
Noncurrent liabilities	(146)	(201)	(57)	—	(1,128)	(207)	(4,415)	(160)
Net assets (liabilities)	₱ 5,765	₱(191)	₱ (86)	₱2,040	₱ 3,736	₱4,210	₱(2,191)	₱ 36
Sales	₱18,804	₱ 598	₱ 565	₱ 218	₱ 3,747	₱5,366	₱ 1,875	₱ —
Net income (loss)	₱ 975	₱(121)	₱ (74)	₱ 163	₱ 98	₱1,066	₱ (37)	₱ —
Other comprehensive income (loss)	(44)	—	—	—	46	(51)	(194)	3
Total comprehensive income (loss)	₱ 931	₱(121)	₱ (74)	₱ 163	₱ 144	₱1,015	₱ (231)	₱ 3
Cash flows provided by (used in) operating activities	₱ 2,463	₱ (39)	₱ 2	₱ 169	₱ 119	₱ 492	₱ 255	₱ —
Cash flows provided by (used in) investing activities	(3,377)	—	(17)	8	(97)	15	(113)	—
Cash flows provided by (used in) financing activities	805	55	(2)	(227)	3	(221)	(9)	—
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	(3)	(8)	14	—
Net increase (decrease) in cash and cash equivalents	₱ (109)	₱ 16	₱ (17)	₱ (50)	₱ 22	₱ 278	₱ 147	₱ —

	2016							
	PF-HORMEL	SMSCCI	PTSMPFI	BPI	SMBHK	PTD	SMBTL	SMHTL
Current assets	₱ 6,936	₱ 438	₱ 243	₱ 337	₱ 2,046	₱3,552	₱ 1,883	₱ 5
Noncurrent assets	3,957	113	76	1,812	3,709	861	2,115	173
Current liabilities	(6,012)	(916)	(295)	(45)	(820)	(506)	(1,940)	—
Noncurrent liabilities	(47)	—	(37)	—	(1,357)	(176)	(4,011)	(145)
Net assets (liabilities)	₱ 4,834	₱(365)	₱ (13)	₱2,104	₱ 3,578	₱3,731	₱(1,953)	₱ 33
Sales	₱17,410	₱ 725	₱ 565	₱ 218	₱ 3,323	₱5,391	₱ 1,647	₱ —
Net income (loss)	₱ 918	₱(160)	₱(107)	₱ 171	₱ 41	₱ 896	₱ 8	₱ —
Other comprehensive income (loss)	(7)	—	—	—	37	86	(13)	—
Total comprehensive income (loss)	₱ 911	₱(160)	₱(107)	₱ 171	₱ 78	₱ 982	₱ (5)	₱ —
Cash flows provided by (used in) operating activities	₱ 574	₱(239)	₱ 27	₱ 198	₱ 60	₱ 493	₱ 133	₱ —
Cash flows provided by (used in) investing activities	(973)	—	(28)	13	(42)	(87)	(111)	—
Cash flows provided by (used in) financing activities	709	228	(2)	(115)	2	(153)	7	—
Effect of exchange rate changes on cash and cash equivalents	—	—	2	—	—	20	1	—
Net increase (decrease) in cash and cash equivalents	₱ 310	₱ (11)	₱ (1)	₱ 96	₱ 20	₱ 273	₱ 30	₱ —

	2015							
	PF-HORMEL	SMSCCI	PTSMPFI	BPI	SMBHK	PTD	SMBTL	SMHTL
Current assets	₱ 5,856	₱ 374	₱ 293	₱ 296	₱ 1,903	₱2,900	₱ 1,569	₱ 5
Noncurrent assets	3,278	107	76	1,809	3,594	611	2,085	162
Current liabilities	(4,674)	(684)	(249)	(36)	(853)	(448)	(1,728)	—
Noncurrent liabilities	(37)	(1)	(30)	(2)	(1,335)	(162)	(3,770)	(136)
Net assets (liabilities)	₱ 4,423	₱(204)	₱ 90	₱2,067	₱ 3,309	₱2,901	₱(1,844)	₱ 31
Sales	₱16,252	₱ 711	₱ 617	₱ 214	₱ 3,358	₱4,688	₱ 1,620	₱ —
Net income (loss)	₱ 868	₱(210)	₱ (69)	₱ 158	₱ (99)	₱ 646	₱ (66)	₱ —
Other comprehensive income (loss)	(7)	—	—	—	(35)	(272)	167	(3)
Total comprehensive income (loss)	₱ 861	₱(210)	₱ (69)	₱ 158	₱ (134)	₱ 374	₱ 101	₱ (3)
Cash flows provided by (used in) operating activities	₱ 873	₱ 34	₱ (52)	₱ 181	₱ 33	₱ 314	₱ 70	₱ —
Cash flows provided by (used in) investing activities	197	—	(21)	9	3	37	(9)	—
Cash flows provided by (used in) financing activities	(1,016)	(24)	79	(446)	(9)	(238)	6	—
Effect of exchange rate changes on cash and cash equivalents	—	—	(1)	—	—	(65)	(4)	—
Net increase (decrease) in cash and cash equivalents	₱ 54	₱ 10	₱ 5	₱ (256)	₱ 27	₱ 48	₱ 63	₱ —

6. Segment Information

Operating Segments

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

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

The Food segment includes agro-industrial, branded value-added and milling. The agro-industrial sub-group includes the integrated Feeds, and Poultry and Fresh Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products. The Branded Value-Added sub-group is engaged in the processing and marketing of value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes, and importation and marketing of coffee and coffee-related products. The milling sub-group is into manufacturing and marketing of flour and bakery ingredients, and is engaged in grain terminal handling.

The Beer and Non-alcoholic Beverage segment is in the production of alcoholic and non-alcoholic beverages within the Philippines and several foreign markets. The alcoholic sub-group produces and markets fermented and malt-based beverages, particularly beer of all kinds and classes. The non-alcoholic sub-group produces ready-to-drink teas, ready-to-drink fruit juices, cola and malt-based beverages.

The Spirits segment is involved in the production of hard liquor in the form of Gin, Chinese wine, Vodka, Rum, Brandy and other hard liquor variants which are available nationwide, while some are exported to select countries.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of trade payables and other current liabilities, and other noncurrent liabilities, excluding interest and dividends payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in the combined financial statements.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	2017					
	Food	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Combined
Sales						
External	₱117,448	₱113,250	₱20,891	₱251,589	₱ —	₱251,589
Inter-segment	1	5	1	7	(7)	—
Total sales	₱117,449	₱113,255	₱20,892	₱251,596	₱ (7)	₱251,589
Segment operating result	₱ 9,926	₱ 31,161	₱ 1,307	₱ 42,394	₱ 7	₱ 42,401
Interest expense and other financing charges	(99)	(2,283)	(276)	(2,658)	—	(2,658)
Interest income	111	534	24	669	—	669
Equity in net losses of joint ventures	—	—	(186)	(186)	—	(186)
Gain (loss) on sale of investments and property and equipment	5	(3)	(2)	—	—	—
Other income (charges) — net	(125)	(321)	81	(365)	—	(365)
Income tax expense	(2,912)	(8,377)	(346)	(11,635)	—	(11,635)
Net income	₱ 6,906	₱ 20,711	₱ 602	₱ 28,219	₱ 7	₱ 28,226
Attributable to:						
Equity holders of the combined entities	₱ 6,569	₱ 20,178	₱ 602	₱ 27,349	₱ 7	₱ 27,356
Non- controlling interests	337	533	—	870	—	870
Net income	₱ 6,906	₱ 20,711	₱ 602	₱ 28,219	₱ 7	₱ 28,226
Other Information						
Segments assets	₱ 77,107	₱ 74,321	₱12,169	₱163,597	₱(63)	₱163,534
Investments	12	41	346	399	—	399
Goodwill, trademarks and brand names	3,953	33,572	127	37,652	—	37,652
Other assets	1	32	2	35	—	35
Deferred tax assets	801	1,317	673	2,791	—	2,791
Combined total assets	₱ 81,874	₱109,283	₱13,317	₱204,474	₱(63)	₱204,411
Segment liabilities	₱ 23,330	₱ 9,559	₱ 2,530	₱ 35,419	₱(46)	₱ 35,373
Notes payable	8,407	—	5,532	13,939	—	13,939
Long-term debt	—	34,665	114	34,779	—	34,779
Income and other taxes payable	1,939	3,685	110	5,734	—	5,734
Dividends and interest payable	23	564	17	604	—	604
Deferred tax liabilities	27	26	—	53	—	53
Combined total liabilities	₱ 33,726	₱ 48,499	₱ 8,303	₱ 90,528	₱(46)	₱ 90,482
Capital expenditures	₱ 10,890	₱ 1,747	₱ 217	₱ 12,854	₱ —	₱ 12,854
Depreciation and amortization of property, plant and equipment	917	1,261	572	2,750	—	2,750
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	2,523	2,623	282	5,428	—	5,428
Loss on impairment of property, plant and equipment	—	534	—	534	—	534

	2016					
	Food	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Combined
Sales						
External	₱111,563	₱ 97,156	₱18,560	₱227,279	₱ —	₱227,279
Inter-segment	23	4	12	39	(39)	—
Total sales	₱111,586	₱ 97,160	₱18,572	₱227,318	₱(39)	₱227,279
Segment operating result	₱ 8,931	₱ 27,188	₱ 917	₱ 37,036	₱ 7	₱ 37,043
Interest expense and other financing charges	(132)	(2,684)	(396)	(3,212)	—	(3,212)
Interest income	127	361	23	511	—	511
Equity in net losses of joint ventures	—	—	(97)	(97)	—	(97)
Gain on sale of investments and property and equipment	127	21	1	149	—	149
Other income (charges) — net	(488)	133	60	(295)	—	(295)
Income tax expense	(2,589)	(7,361)	(147)	(10,097)	—	(10,097)
Net income	₱ 5,976	₱ 17,658	₱ 361	₱ 23,995	₱ 7	₱ 24,002
Attributable to:						
Equity holders of the combined entities	₱ 5,682	₱ 17,217	₱ 361	₱ 23,260	₱ 7	₱ 23,267
Non-controlling interest	294	441	—	735	—	735
Net income	₱ 5,976	₱ 17,658	₱ 361	₱ 23,995	₱ 7	₱ 24,002
Other Information						
Segments assets	₱ 62,199	₱ 66,534	₱13,747	₱142,480	₱(73)	₱142,407
Investments	12	41	465	518	—	518
Goodwill, trademarks and brand names	3,926	33,566	127	37,619	—	37,619
Other assets	—	15	2	17	—	17
Deferred tax assets	878	1,435	821	3,134	—	3,134
Combined total assets	₱ 67,015	₱101,591	₱15,162	₱183,768	₱(73)	₱183,695
Segment liabilities	₱ 17,190	₱ 9,062	₱ 2,306	₱ 28,558	₱(49)	₱ 28,509
Notes payable	5,126	—	7,998	13,124	—	13,124
Long-term debt	—	37,617	229	37,846	—	37,846
Income and other taxes payable	1,477	3,435	176	5,088	—	5,088
Dividends payable and interest payable	8	606	22	636	—	636
Deferred tax liabilities	27	113	—	140	—	140
Combined total liabilities	₱ 23,828	₱ 50,833	₱10,731	₱ 85,392	₱(49)	₱ 85,343
Capital expenditures	₱ 6,467	₱ 1,218	₱ 382	₱ 8,067	₱ —	₱ 8,067
Depreciation and amortization of property, plant and equipment	983	1,318	581	2,882	—	2,882
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	2,549	3,058	298	5,905	—	5,905
Loss on impairment of idle assets	109	—	—	109	—	109

	2015					
	Food	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Combined
Sales						
External	₱106,855	₱82,371	₱16,170	₱205,396	₱ —	₱205,396
Inter-segment	5	3	458	466	(466)	—
Total sales	₱106,860	₱82,374	₱16,628	₱205,862	₱(466)	₱205,396
Segment operating result	₱ 7,644	₱22,631	₱ 571	₱ 30,846	₱ 6	₱ 30,852
Interest expense and other financing charges	(389)	(2,597)	(486)	(3,472)	—	(3,472)
Interest income	181	261	30	472	—	472
Equity in net losses of joint ventures	—	—	(110)	(110)	—	(110)
Gain on sale of property and equipment	98	9	163	270	(37)	233
Other charges — net	(565)	(965)	(52)	(1,582)	—	(1,582)
Income tax expense	(2,217)	(5,821)	(501)	(8,539)	—	(8,539)
Net income	₱ 4,752	₱13,518	₱ (385)	₱ 17,885	₱ (31)	₱ 17,854
Attributable to:						
Equity holders of the combined entities	₱ 4,499	₱13,251	₱ (385)	₱ 17,365	₱ (31)	₱ 17,334
Non-controlling interest	253	267	—	520	—	520
Net income	₱ 4,752	₱13,518	₱ (385)	₱ 17,885	₱ (31)	₱ 17,854
Other Information						
Segments assets	₱ 56,230	₱57,965	₱14,171	₱128,366	₱ (73)	₱128,293
Investments	11	60	525	596	—	596
Goodwill, trademarks and brand names	3,923	33,482	127	37,532	—	37,532
Other assets	1	10	2	13	—	13
Deferred tax assets	872	1,574	810	3,256	—	3,256
Combined total assets	₱ 61,037	₱93,091	₱15,635	₱169,763	₱ (73)	₱169,690
Segment liabilities	₱ 16,658	₱ 9,942	₱ 2,564	₱ 29,164	₱ (42)	₱ 29,122
Notes payable	3,576	—	8,406	11,982	—	11,982
Long-term debt	65	37,566	343	37,974	—	37,974
Income and other taxes payable	1,689	2,874	185	4,748	—	4,748
Dividends payable and interest payable	7	604	33	644	—	644
Deferred tax liabilities	26	114	—	140	—	140
Combined total liabilities	₱ 22,021	₱51,100	₱11,531	₱ 84,652	₱ (42)	₱ 84,610
Capital expenditures	₱ 3,128	₱ 1,026	₱ 233	₱ 4,387	₱ —	₱ 4,387
Depreciation and amortization of property, plant and equipment	897	1,283	568	2,748	—	2,748
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	2,435	1,642	447	4,524	—	4,524
Loss on impairment of property, plant and equipment, goodwill and other noncurrent assets	253	1,011	100	1,364	—	1,364

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2017	2016	2015
Cash on hand and in banks		**₱ 5,962**	₱ 5,095	₱ 5,270
Short-term investments		**29,578**	25,237	20,310
	34, 35	**₱35,540**	₱30,332	₱25,580

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at the short-term investment rates (Note 28).

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	2017	2016	2015
Trade		**₱16,910**	₱17,241	₱16,369
Non-trade		**1,568**	2,011	2,009
Amounts owed by related parties	*30*	**1,311**	1,204	1,127
		19,789	20,456	19,505
Less allowance for impairment losses	*4, 5*	**1,552**	1,728	1,377
	34, 35	**₱18,237**	₱18,728	₱18,128

Trade receivables are non-interest bearing and are generally on a 7 to 60-day term.

Non-trade receivables include advances to contract growers and breeders, receivables from truckers and toll partners, insurance and freight claims, receivables from employees, interest and others.

The movements in the allowance for impairment losses are as follows:

	Note	2017	2016	2015
Balance at beginning of year		**₱1,728**	₱1,377	₱1,617
Charges (reversal) for the year — net	*4, 23, 24*	**(50)**	434	(204)
Amounts written off		**(128)**	(100)	(34)
Cumulative translation adjustments and others		**2**	17	(2)
Balance at end of year		**₱1,552**	₱1,728	₱1,377

The aging of receivables is as follows:

December 31, 2017	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**₱11,520**	**₱ 567**	**₱ 250**	**₱12,337**
Past due:				
1-30 days	**2,745**	**148**	**66**	**2,959**
31-60 days	**509**	**109**	**42**	**660**
Over 60 days	**2,136**	**744**	**953**	**3,833**
	₱16,910	**₱1,568**	**₱1,311**	**₱19,789**

December 31, 2016	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	₱11,831	₱ 819	₱ 164	₱12,814
Past due:				
1-30 days	3,308	185	76	3,569
31-60 days	524	287	34	845
Over 60 days	1,578	720	930	3,228
	₱17,241	₱2,011	₱1,204	₱20,456

December 31, 2015	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	₱10,595	₱1,168	₱ 130	₱11,893
Past due:				
1-30 days	3,713	27	49	3,789
31-60 days	616	154	30	800
Over 60 days	1,445	660	918	3,023
	₱16,369	₱2,009	₱1,127	₱19,505

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

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historical payment behavior and analyzes of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 34).

9. Inventories

Inventories consist of:

	2017	2016	2015
At net realizable value:			
Finished goods and goods in process	**₱ 7,005**	₱ 6,981	₱ 6,170
Materials and supplies	**19,833**	16,437	14,222
Containers	**1,520**	1,878	1,461
	₱28,358	₱25,296	₱21,853

The cost of inventories as of December 31 are as follows:

	2017	2016	2015
Finished goods and goods in process	**₱ 7,195**	₱ 7,216	₱ 6,575
Materials and supplies	**20,339**	16,831	14,556
Containers	**1,932**	2,093	2,050
	₱29,466	₱26,140	₱23,181

The movements in the allowance for write-down of inventories to net realizable value are as follows:

	Note	2017	2016	2015
Balance at beginning of year		**₱ 844**	₱1,328	₱1,036
Write-down for the year	*4, 23, 24*	**697**	486	805
Reversal		**1**	—	6
Amounts written off		**(436)**	(971)	(515)
Cumulative translation adjustments and others		**2**	1	(4)
Balance at end of year		**₱1,108**	₱ 844	₱1,328

The cost of inventories used recognized under "Cost of sales" account in the combined statements of income amounted to ₱98,125, ₱93,299 and ₱91,006 in 2017, 2016 and 2015, respectively (Note 23).

The fair value of agricultural produce less costs to sell, which formed part of the cost of the finished goods inventory, amounted to ₱442, ₱466 and ₱649 as of December 31, 2017, 2016 and 2015, respectively, with corresponding costs at point of harvest amounting to ₱405, ₱468 and ₱620, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to ₱37, (₱2) and ₱29 in 2017, 2016 and 2015, respectively (Note 22).

The fair values of marketable hogs and cattle and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

10. Biological Assets

Biological assets consist of:

	Note	2017	2016	2015
Current:				
Growing stocks		**₱2,848**	₱2,749	₱2,950
Goods in process		**574**	373	369
		3,422	3,122	3,319
Noncurrent:				
Breeding stocks — net	*4*	**2,695**	2,263	2,177
		₱6,117	₱5,385	₱5,496

The amortization of breeding stocks recognized in the combined statements of income amounted to ₱2,161, ₱1,947 and ₱1,769 in 2017, 2016 and 2015, respectively (Note 25).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	2017	2016	2015
Cost				
Balance at beginning of year		**₱ 6,654**	₱ 6,590	₱ 6,173
Increase (decrease) due to:				
Production		**41,012**	40,974	39,157
Purchases		**1,106**	500	604
Mortality		**(677)**	(710)	(712)
Harvest		**(38,476)**	(38,880)	(37,072)
Retirement		**(2,070)**	(1,820)	(1,560)
Balance at end of year		**7,549**	6,654	6,590
Accumulated Amortization				
Balance at beginning of year		**1,269**	1,094	880
Additions	*25*	**2,161**	1,947	1,769
Retirement		**(1,998)**	(1,772)	(1,555)
Balance at end of year		**1,432**	1,269	1,094
Carrying Amount		**₱ 6,117**	₱ 5,385	₱ 5,496

The Group harvested approximately 524 million, 508 million and 478 million kilograms of grown broilers in 2017, 2016 and 2015, respectively, and 0.59 million 0.65 million, 0.68 million heads of marketable hogs and cattle in 2017, 2016 and 2015, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to ₱42,971, ₱47,016 and ₱42,857 in 2017, 2016 and 2015, respectively.

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2017	2016	2015
Prepaid taxes and licenses		**₱2,452**	₱2,177	₱3,059
Input tax		**1,725**	1,421	1,347
Advances to contractors and suppliers		**147**	103	2
Derivative assets	*34, 35*	**61**	8	12
Prepaid rent	*30*	**48**	39	40
Others	*30*	**439**	535	475
		₱4,872	₱4,283	₱4,935

"Others" include prepaid insurance, prepaid promotional expenses, advance payments and deposits, and prepayments for various operating expenses.

"Prepaid rent" and "Others" accounts include amounts owed by related parties amounting to ₱26, ₱15 and ₱19 as of December 31, 2017, 2016 and 2015, respectively (Note 30).

The methods and assumptions used to estimate the fair value of derivative assets are discussed in Note 35.

12. Investments

Investments consist of:

	Note	2017	2016	2015
Investments in joint ventures		**₱346**	₱465	₱525
AFS financial assets	*4, 34, 35*	**53**	53	71
		₱399	₱518	₱596

Investments in Joint Ventures

The movements in investments in joint ventures are as follows:

	2017	2016	2015
Balance at beginning of year	**₱ 465**	₱525	₱ 660
Equity in net losses	**(186)**	(97)	(110)
Share in other comprehensive income (loss)	**67**	37	(25)
Balance at end of year	**₱ 346**	₱465	₱ 525

a. TSML

GSMI, through GSMIL, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMI owns 44.9% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

The details of the investment in TSML which is accounted for using the equity method are as follows:

	2017	2016	2015
Current assets	**₱ 846**	₱ 1,439	₱ 1,357
Noncurrent assets	**1,320**	1,318	1,350
Current liabilities	**(1,394)**	(1,305)	(1,344)
Noncurrent liabilities	**(1)**	(1)	(2)
Net assets	**771**	1,451	1,361
Percentage of ownership	**44.9%**	44.9%	44.9%
Amount of investment in joint venture	**₱ 346**	₱ 651	₱ 611
Carrying amount of investment in joint venture — net	**₱ 346**	₱ 465	₱ 525

	2017	2016	2015
Sales	**₱ 1,571**	₱ 1,321	₱ 1,195
Cost of sales	**(1,464)**	(1,206)	(1,121)
Operating expenses	**(884)**	(68)	(72)
Other charges	**(52)**	(40)	(55)
Net income (loss)	**(829)**	7	(53)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net income (loss)	**(372)**	3	(24)
Share in other comprehensive income (loss)	**67**	37	(25)
Total comprehensive income (loss)	**₱ (305)**	₱ 40	₱ (49)

The recoverable amount of investment in TSML has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections is 9% in 2017, 2016 and 2015. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The Group assessed the recoverable amounts of TSML and the result of such assessment was that the carrying amount is higher than its recoverable amount resulting in impairment loss included as part of "Equity in net losses of joint ventures" account in the combined statements of income amounting to ₱100 and ₱86 in 2016 and 2015, respectively.

The recoverable amount of investment in TSML has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

b. TGT

GSMI, through GSMIHL, also has an existing 44.9% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

The details of the investment in TGT which is accounted for using the equity method are as follows:

	2017	2016	2015
Current assets	**₱ 24**	₱ 22	₱ 40
Noncurrent assets	**—**	5	6
Current liabilities	**(904)**	(818)	(786)
Net liabilities	**(880)**	(791)	(740)
Percentage of ownership	**44.9%**	44.9%	44.9%
Amount of investment in joint venture	**₱(395)**	₱(355)	₱(332)
Carrying amount of investment in joint venture — net	**₱ —**	₱ —	₱ —

	2017	2016	2015
Sales	**₱ 114**	₱ 105	₱ 77
Cost of sales	**(98)**	(91)	(68)
Operating expenses	**(17)**	(17)	(24)
Other income	**—**	—	1
Net loss	**(1)**	(3)	(14)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net loss	**—**	(1)	(6)
Share in other comprehensive loss	**(40)**	(22)	(14)
Total comprehensive loss	**₱ (40)**	₱ (23)	₱ (20)

GSMI discontinued recognizing its share in the net liabilities of TGT since the cumulative losses including the share in other comprehensive loss already exceeded the cost of investment. If TGT reports profits subsequently, GSMI resumes recognizing its share of those profits after its share of the profits equals the share of net losses not recognized. Unrecognized share in net liabilities amounted to ₱395, ₱355 and ₱332 as of December 31, 2017, 2016 and 2015, respectively.

AFS Financial Assets

The Group's AFS financial assets pertain to investments in shares of stock and club shares amounting to ₱53 as of December 31, 2017 and 2016 and ₱71 as of December 31, 2015. In 2016, investment in shares of stock of PT San Miguel Indonesia Foods and Beverages with carrying amount of ₱23 was disposed of which resulted in a gain of ₱13.

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 35.

13. Property, Plant and Equipment

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

	Note	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2015		₱11,207	₱21,568	₱56,925	₱3,705	₱740	₱ 534	₱ 94,679
Additions		400	111	1,044	87	10	2,735	4,387
Disposals/ reclassifications		27	(2,046)	(836)	(395)	(12)	(65)	(3,327)
Cumulative translation adjustments		(39)	106	49	—	—	(2)	114
December 31, 2015		11,595	19,739	57,182	3,397	738	3,202	95,853
Additions		127	685	1,657	383	10	5,205	8,067
Disposals/ reclassifications		(33)	(348)	(72)	(409)	—	(428)	(1,290)
Cumulative translation adjustments		63	193	333	24	—	1	614
December 31, 2016		11,752	20,269	59,100	3,395	748	7,980	103,244
Additions		699	287	1,566	432	35	9,835	12,854
Disposals/ reclassifications		8	(18)	(519)	(431)	15	(175)	(1,120)
Cumulative translation adjustments		98	300	876	15	1	1	1,291
December 31, 2017		**12,557**	**20,838**	**61,023**	**3,411**	**799**	**17,641**	**116,269**
Accumulated Depreciation and Amortization								
January 1, 2015		524	8,258	36,127	2,790	265	—	47,964
Depreciation and amortization	*25*	25	519	1,864	295	45	—	2,748
Disposals/ reclassifications		(4)	(833)	(1,388)	(374)	(9)	—	(2,608)
Cumulative translation adjustments		—	37	(15)	(1)	—	—	21
December 31, 2015		545	7,981	36,588	2,710	301	—	48,125
Depreciation and amortization	*25*	27	595	1,963	253	44	—	2,882
Disposals/ reclassifications		(13)	(157)	(283)	(268)	(1)	—	(722)
Cumulative translation adjustments		—	90	233	20	—	—	343
December 31, 2016		559	8,509	38,501	2,715	344	—	50,628
Depreciation and amortization	*25*	21	579	1,884	222	44	—	2,750
Disposals/ reclassifications		—	(46)	(563)	(225)	2	—	(832)
Cumulative translation adjustments		—	93	419	11	1	—	524
December 31, 2017		**580**	**9,135**	**40,241**	**2,723**	**391**	**—**	**53,070**
Accumulated Impairment								
January 1, 2015		—	2,268	7,605	62	1	—	9,936
Impairment	*29*	—	202	796	—	—	—	998
Disposals/ reclassifications		—	—	(7)	(2)	—	—	(9)
Cumulative translation adjustments		—	(22)	86	2	(1)	—	65
December 31, 2015		—	2,448	8,480	62	—	—	10,990
Disposals/ reclassifications		—	(6)	6	—	—	—	—
Cumulative translation adjustments		—	(32)	74	1	—	—	43
December 31, 2016		—	2,410	8,560	63	—	—	11,033
Impairment	*29*	—	127	407	—	—	—	534
Disposals/ reclassifications		—	—	(21)	(1)	1	—	(21)
Cumulative translation adjustments		—	164	363	1	—	—	528
December 31, 2017		**—**	**2,701**	**9,309**	**63**	**1**	**—**	**12,074**
Carrying Amount								
December 31, 2015		₱11,050	₱ 9,310	₱12,114	₱ 625	₱437	₱ 3,202	₱ 36,738
December 31, 2016		₱11,193	₱ 9,350	₱12,039	₱ 617	₱404	₱ 7,980	₱ 41,583
December 31, 2017		**₱11,977**	**₱ 9,002**	**₱11,473**	**₱ 625**	**₱407**	**₱17,641**	**₱ 51,125**

Depreciation and amortization recognized in the combined statements of income amounted to ₱2,750, ₱2,882 and ₱2,748 in 2017, 2016 and 2015, respectively (Note 25). These amounts include annual amortization of capitalized interest amounting to ₱14, ₱15 and ₱13 in 2017, 2016 and 2015, respectively.

The Group has interest amounting to ₱61, ₱12 and ₱2 which was capitalized in 2017, 2016 and 2015, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 3.1% to 4.26%, 2.0% to 4.03% and 4.35% in 2017, 2016 and 2015, respectively. The unamortized capitalized borrowing costs amounted to ₱130, ₱83 and ₱86 as of December 31, 2017, 2016 and 2015, respectively.

The carrying amounts of GSMI's unutilized machinery and equipment, net of accumulated impairment losses of ₱308 as of December 31, 2017, 2016 and 2015, amounted to ₱10, ₱16 and ₱56 as of December 31, 2017, 2016 and 2015, respectively.

14. Investment Property

The movements and balances of investment property are as follows:

	Note	Land and Land Improvements	Buildings and Improvements	Total
Cost				
January 1, 2015		₱1,911	₱382	₱2,293
Additions		4	—	4
Disposals		(2)	(2)	(4)
Reclassifications		81	89	170
Currency translation adjustments		18	19	37
December 31, 2015		2,012	488	2,500
Additions		4	—	4
Disposals		(1)	—	(1)
Reclassifications		227	210	437
Currency translation adjustments		24	27	51
December 31, 2016		2,266	725	2,991
Additions		105	—	105
Reclassifications		(650)	—	(650)
Currency translation adjustments		(2)	(3)	(5)
December 31, 2017		**1,719**	**722**	**2,441**
Accumulated Depreciation and Amortization				
January 1, 2015		79	151	230
Depreciation and amortization	*25*	10	11	21
Disposals		—	(2)	(2)
Reclassifications		19	35	54
Currency translation adjustments		5	8	13
December 31, 2015		113	203	316
Depreciation and amortization	*25*	15	15	30
Reclassifications		49	89	138
Currency translation adjustments		7	12	19
December 31, 2016		184	319	503
Depreciation and amortization	*25*	—	15	15
Reclassifications		(183)	—	(183)
Currency translation adjustments		(1)	(1)	(2)
December 31, 2017		**—**	**333**	**333**
Accumulated Impairment Losses				
December 31, 2015, 2016 and 2017		**8**	**—**	**8**
Carrying Amount				
December 31, 2015		₱1,891	₱285	₱2,176
December 31, 2016		₱2,074	₱406	₱2,480
December 31, 2017		**₱1,711**	**₱389**	**₱2,100**

No impairment loss was recognized in 2017, 2016 and 2015.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2017, 2016 and 2015.

The fair value of investment property amounting to ₱3,903, ₱5,104 and ₱4,353 as of December 31, 2017, 2016 and 2015, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, or by the credit management group. The independent appraisers or the credit management group provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

Sales Comparison Approach. The valuation of investment property applied the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

The valuation of several investment property located outside the Philippines is also determined using the Income Approach which considers the capitalization of net rent income receivable from existing tenancies and the reversionary value of the property after tenancies expire by reference to market sales transactions. The significant unobservable input in the fair value measurement is the discount rate, which ranged from 2.1% to 4.0%, 3.1% to 4.1% and 2.9% to 3.9% in 2017, 2016 and 2015, respectively.

15. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2017	**2016**	**2015**
Goodwill	**₱ 304**	₱ 304	₱ 304
Other intangible assets	**40,786**	40,193	40,109
	₱41,090	₱40,497	₱40,413

Goodwill acquired through business combinations which has been allocated to individual cash-generating units for impairment testing amounted to ₱171, ₱6 and ₱127 for PTSMPFI, GFDCC and EPSBPI as of December 31, 2017, 2016 and 2015, respectively.

Other intangible assets consist of:

	2017	**2016**	**2015**
Trademarks and brand names	**₱37,348**	₱37,315	₱37,228
Licenses	**2,013**	1,829	1,719
Land use rights	**1,191**	738	749
Computer software and licenses	**169**	246	348
Formulas and recipes	**58**	58	58
Franchise	**7**	7	7
	₱40,786	₱40,193	₱40,109

The movements in other intangible assets with indefinite useful lives are as follows:

	Trademarks and Brand Names	Licenses	Formulas and Recipes and Franchise	Total
Cost				
January 1, 2015	₱36,915	₱1,788	₱65	₱38,768
Additions	446	—	—	446
Cumulative translation adjustments	84	(69)	—	15
December 31, 2015	37,445	1,719	65	39,229
Cumulative translation adjustments	98	110	—	208
December 31, 2016	37,543	1,829	65	39,437
Additions	27	—	—	27
Cumulative translation adjustments	6	184	—	190
December 31, 2017	**37,576**	**2,013**	**65**	**39,654**
Accumulated Impairment Losses				
January 1, 2015	193	—	—	193
Impairment	13	—	—	13
Cumulative translation adjustments	11	—	—	11
December 31, 2015	217	—	—	217
Cumulative translation adjustments	11	—	—	11
December 31, 2016 and 2017	**228**	**—**	**—**	**228**
Carrying Amount				
December 31, 2015	₱37,228	₱1,719	₱65	₱39,012
December 31, 2016	₱37,315	₱1,829	₱65	₱39,209
December 31, 2017	**₱37,348**	**₱2,013**	**₱65**	**₱39,426**

The following are the main reasons or factors that played a significant role in determining that such assets have indefinite useful lives:

- Expected continuous cash flows from the asset;
- Stability of industry in which the assets operate; and
- Full control over the assets.

The movements in other intangible assets with finite useful lives are as follows:

	Note	Land Use Rights	Computer Software and Other Intangibles	Total
Cost				
January 1, 2015		₱1,126	₱1,107	₱2,233
Additions		—	89	89
Cumulative translation adjustments		16	—	16
December 31, 2015		1,142	1,196	2,338
Additions		—	94	94
Cumulative translation adjustments		16	8	24
December 31, 2016		1,158	1,298	2,456
Additions		—	39	39
Disposals/reclassifications		650	(5)	645
Cumulative translation adjustments		45	1	46
December 31, 2017		**1,853**	**1,333**	**3,186**
Accumulated Amortization				
January 1, 2015		360	659	1,019
Amortization	*25*	24	185	209
Disposals/reclassifications		—	(1)	(1)
Cumulative translation adjustments		3	—	3
December 31, 2015		387	843	1,230
Amortization	*25*	23	196	219
Cumulative translation adjustments		4	8	12
December 31, 2016		414	1,047	1,461
Amortization	*25*	40	116	156
Disposals/reclassifications		184	(6)	178
Cumulative translation adjustments		18	1	19
December 31, 2017		**656**	**1,158**	**1,814**
Accumulated Impairment Losses				
January 1, 2015 and December 31, 2015 and 2016		6	5	11
Cumulative translation adjustments		—	1	1
December 31, 2017		**6**	**6**	**12**
Carrying Amount				
December 31, 2015		₱ 749	₱ 348	₱1,097
December 31, 2016		₱ 738	₱ 246	₱ 984
December 31, 2017		**₱1,191**	**₱ 169**	**₱1,360**

Goodwill, licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2017		2016		2015	
	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise
Food	**₱177**	**₱ 3,841**	₱177	₱ 3,814	₱177	₱ 3,811
Spirits	**127**	**—**	127	—	127	—
Beer and non-alcoholic beverage	**—**	**35,585**	—	35,395	—	35,201
Total	**₱304**	**₱39,426**	₱304	₱39,209	₱304	₱39,012

Goodwill

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 2% to 5%, 2% to 5.5% and 2% to 7% in 2017, 2016 and 2015, respectively, are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 9% to 13% in 2017, 2016 and 2015. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for goodwill in 2017 and 2016. As a result of decline in operations resulting in lower sales forecast compared with previous years, GSMI recognized impairment loss amounting to ₱100 in 2015 (Note 29).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Raw Material Price Inflation. Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

Discount Rate. The risk-adjusted weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Trademarks and Brand Names

The recoverable amount of trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2017, 2016 and 2015 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections range from 6.4% to 18.8% in 2017 and 2016 and 6.8% to 17.5% in 2015. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for trademarks and brand names in 2017 and 2016. Impairment loss recognized in 2015 for trademarks and brand names amounted to ₱13 (Note 29).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Growth Rate. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

Discount Rate. The weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2017	2016	2015
Deferred containers — net	*4*	**₱12,107**	₱10,339	₱ 9,354
Noncurrent receivables and deposits — net	*30, 34, 35*	**574**	147	147
Others	*30, 32*	**1,101**	973	1,018
		₱13,782	₱11,459	₱10,519

The movements in the deferred containers are as follows:

	Note	2017	2016	2015
Gross Carrying Amount				
Balance at beginning of year		**₱24,306**	₱20,947	₱19,189
Additions		**4,790**	4,573	2,212
Disposals/reclassifications		**(972)**	(1,272)	(421)
Currency translation adjustments		**33**	58	(33)
Balance at end of year		**28,157**	24,306	20,947
Accumulated Amortization				
Balance at beginning of year		**13,967**	11,593	9,937
Amortization	*25*	**2,285**	2,638	1,658
Disposals/reclassifications		**(224)**	(301)	13
Currency translation adjustments		**22**	37	(15)
Balance at end of year		**16,050**	13,967	11,593
		₱12,107	₱10,339	₱ 9,354

"Noncurrent receivables and deposits" are net of allowance for impairment losses amounting to ₱164, ₱122 and ₱97 as of December 31, 2017, 2016 and 2015, respectively.

"Others" include pallets, kegs and CO2 cylinders, idle assets, defined benefit retirement asset and other noncurrent assets.

Idle assets, net of depreciation and impairment losses, amounted to ₱64, ₱99 and ₱273 as of December 31, 2017, 2016 and 2015. Accumulated impairment losses on idle assets amounted to ₱457, ₱456 and ₱331 as of December 31, 2017, 2016 and 2015.

"Noncurrent receivables and deposits" and "Others" accounts include amounts owed by related parties amounting to ₱61, ₱9 and ₱4 as of December 31, 2017, 2016 and 2015, respectively (Note 30).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits are discussed in Note 35.

17. Notes Payable

Notes payable consist of:

	Note	2017	2016	2015
Peso-denominated		**₱13,791**	₱12,967	₱11,876
Foreign currency-denominated		**148**	157	106
	34, 35	**₱13,939**	₱13,124	₱11,982

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 2.00% to 4.50%, 2.00% to 5.00% and 2.00% to 4.75% in 2017, 2016 and 2015, respectively. Interest rates for foreign currency-denominated loans range from 6.50% to 9.20%, 7.00% to 11.10% and 6.80% to 12.60% in 2017, 2016 and 2015, respectively (Note 27).

Changes in liabilities arising from financing activities are as follows:

	2017
Balance at beginning of year	**₱ 13,124**
Changes from financing cash flows	
Proceeds from borrowings	**194,395**
Payment of borrowings	**(193,579)**
Total changes from financing cash flows	**816**
Effect of changes in foreign exchange rates	**(1)**
Balance at end of year	**₱ 13,939**

Notes payable include interest-bearing amounts payable to a related party amounting to ₱4,530, ₱2,685 and ₱887 as of December 21, 2017, 2016 and 2015, respectively (Note 30).

Interest expense on notes payable recognized in the combined statements of income amounted to ₱300, ₱430 and ₱558 in 2017, 2016 and 2015, respectively (Note 27).

Notes payable of the Group are not subject to covenants and warranties.

The Group's exposure to interest rate and liquidity risks are discussed in Note 34.

18. Trade Payables and Other Current Liabilities

Trade payable and other current liabilities consist of:

	Note	2017	2016	2015
Trade		**₱18,828**	₱14,630	₱16,041
Non-trade		**8,496**	7,221	4,965
Amounts owed to related parties	*30*	**5,224**	4,026	3,754
Derivative liabilities	*34, 35*	**118**	242	92
Others		**943**	739	528
	34, 35	**₱33,609**	₱26,858	₱25,380

Trade payables are non-interest bearing and are generally on a 30 to 60-day term. Non-trade payables include contract growers/breeders' fees and tolling fees.

"Others" include accruals for payroll, interest, repairs and maintenance, freight, trucking and handling and other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 35.

19. Long-term Debt

Long-term debt consists of:

	Note	2017	2016	2015
Bonds:				
Series C bonds, fixed interest rate of 10.50% maturing in 2019		**₱ 2,804**	₱ 2,800	₱ 2,796
Series D bonds, fixed interest rate of 6.05% matured in 2017		**—**	2,998	2,992
Series E bonds, fixed interest rate of 5.93% maturing in 2019		**9,978**	9,962	9,947
Series F bonds, fixed interest rate of 6.60% maturing in 2022		**6,964**	6,957	6,950
Series G bonds, fixed interest rate of 5.50% maturing in 2021		**12,398**	12,381	12,365
Series H bonds, fixed interest rate of 6.00% maturing in 2024		**2,521**	2,519	2,516
Term note:				
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018		**114**	229	343
Facility loans:				
Fixed interest rates of 12.85%, 12.45% and 13.27% matured in 2016		**—**	—	65
	34, 35	**34,779**	37,846	37,974
Less current maturities		**114**	3,113	179
		₱34,665	₱34,733	₱37,795

Bonds

The amount represents unsecured long-term debt incurred by SMB: (a) to finance its acquisition of SMC's interest in IBI and BPI; (b) to support the redemption of the Series A bonds which matured on April 3, 2012; (c) to support the partial prepayment of the US$300 unsecured loan facility agreement (which was paid in full in 2013); and (d) to support the redemption of the Series B bonds which matured on April 4, 2014.

SMB's unsecured long-term notes comprise the Philippine peso-denominated fixed rate bonds in the aggregate principal amount of: (a) ₱2,810 pertaining to the aggregate principal amount of the Series C bonds which remain outstanding of the ₱38,800 bonds (₱38,800 Bonds) which were issued on April 3, 2009 (₱38,800 Bonds Issue Date); (b) ₱17,000 pertaining to the aggregate principal amount of Series E and F bonds which remain outstanding of the ₱20,000 bonds (₱20,000 Bonds) which were issued on April 2, 2012 (₱20,000 Bonds Issue Date); and (c) ₱15,000 (₱15,000 Bonds) which were issued on April 2, 2014 (₱15,000 Bonds Issue Date).

The ₱38,800 Bonds, which originally consisted of the Series A bonds (with a term of three years from the ₱38,800 Bonds Issue Date), the Series B bonds (with a term of five years and one day from the ₱38,800 Bonds Issue Date) and the Series C bonds (with a term of ten years from the ₱38,800 Bonds Issue Date), were sold to the public pursuant to a registration statement that was rendered effective and permit to sell issued, by the SEC on March 17, 2009. The ₱38,800 Bonds were listed on the PDEx on November 17, 2009. The Series A bonds matured on April 3, 2012 and were accordingly redeemed by SMB on April 3, 2012. Part of the proceeds of SMB's ₱20,000 Bonds were used to pay such maturity. The Series B bonds with an aggregate principal amount of ₱22,400 matured on April 4, 2014 and were accordingly redeemed by SMB on April 4, 2014. The proceeds of SMB's ₱15,000 Bonds were used to partially pay such maturity. Only the Series C bonds remain outstanding of the ₱38,800 Bonds. Unamortized debt issue costs related to the Series C bonds amounted to ₱6, ₱10 and ₱14 as of December 31, 2017, 2016 and 2015, respectively.

The ₱20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the ₱20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the ₱20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the ₱20,000 Bonds Issue Date). The ₱20,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 16, 2012. The Series E bonds and Series F bonds were listed on the PDEx for trading on April 2, 2012, while the Series D bonds were listed on the PDEx for trading on October 3, 2012. The Series D bonds with an aggregate principal amount of ₱3,000 matured on April 3, 2017 and was accordingly redeemed by SMB on the said date. Unamortized debt issue costs related to the Series E and F bonds amounted to ₱58, ₱81 and ₱103 as of December 31, 2017, 2016 and 2015, respectively. Unamortized debt issue costs related to the Series D bonds amounted to ₱2 and ₱8 as of December 31, 2016 and 2015, respectively.

The ₱15,000 Bonds consist of the Series G bonds (with a term of seven years from the ₱15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the ₱15,000 Bonds Issue Date). The ₱15,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEx for trading on April 2, 2014. Unamortized debt issue costs related to the ₱15,000 Bonds amounted to ₱81, ₱100 and ₱119 as of December 31, 2017, 2016 and 2015, respectively.

Interest on the Series C bonds are paid semi-annually, every April 3 and October 3 of each year. Interest on the ₱20,000 Bonds are paid semi-annually every April 2 and October 2 of each year (each, a ₱20,000 Bonds Interest Payment Date), save for the first interest payment of the Series D bonds which was made on October 3, 2012. SMB may (but shall not be obligated to) redeem all (and not a part only) of the outstanding ₱20,000 Bonds on the day after the 10th ₱20,000 Bonds Interest Payment Date for the Series E bonds, and the 14th ₱20,000 Bonds Interest Payment Date for the Series F Bonds. Interest on the ₱15,000 Bonds are paid every April 2 and October 2 of each year (each, a ₱15,000 Bonds Interest Payment Date). SMB may also (but shall likewise not be obligated to) redeem all (and not a part only) of the outstanding ₱15,000 Bonds on the 11th ₱15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th ₱15,000 Bonds Interest Payment Dates for the Series H bonds.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a solicitation process for the consents of the majority of the holders of record as of December 15, 2014 of SMB's Series C bonds, Series D bonds, Series E bonds and Series F bonds (Series CDEF Bonds Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to align the same with the negative covenants of the trust agreement covering the Series G bonds and Series H bonds (Series GH Bonds Trust Agreement), and allow SMB to engage, or amend its Articles of Incorporation to engage, in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Series CDEF Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C bonds and 81.05% of the combined outstanding aggregate principal amount of the Series D bonds, Series E bonds and Series F bonds, for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said bonds on February 2, 2015.

To allow SMB to remain under the effective control of SMC through SMFB in the implementation of the corporate reorganization of the food and beverage business of SMC (and thus ensure that the trust agreements covering SMB's outstanding bonds remain consistent with their original intended purpose) as discussed in Note 1, the BOD of SMB, in its meeting on November 3, 2017, approved the conduct of a solicitation process for the consent of the majority of the holders of record as of November 8, 2017 of SMB's Series C bonds, Series E bonds and Series F bonds (Series CEF Bonds Record Bondholders) to align the change in control default provision under the trust agreements covering the Series C bonds, Series E bonds and Series F bonds with the change in control default provision under the Series GH Bonds Trust Agreement (Change in Control Amendment). Under the Series GH Bonds Trust Agreement, a change in control of SMB occurs when SMC ceases to have the ability to consolidate SMB as a subsidiary in its consolidated financial statements in accordance with the accounting principles and standards applicable to SMC then in effect.

SMB obtained the consent of the Series CEF Record Bondholders representing 88.28% of the outstanding aggregate principal amount of the Series C bonds, and 78.1803% of the combined outstanding aggregate principal amount of the Series E bonds and Series F bonds, for the Change in Control Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series E bonds and Series F bonds to reflect the Change in Control Amendment were executed by SMB and the respective trustees of the said bonds on December 19, 2017.

Valuation Technique

The market value was determined using the market comparison technique. The fair values are based on PDEx. The bonds are traded in an active market and the quotes reflect the actual transactions in similar instruments.

The fair value of bonds amounting to ₱36,281, ₱40,091 and ₱41,081 as of December 31, 2017, 2016 and 2015, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 35).

Term Note

GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to ₱800. The proceeds of the loan was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

The loan is payable up to nine years from and after the initial date of borrowing, but in no case later than September 30, 2018 (expiry date of memorandum of agreement), inclusive of a grace period of two years on principal repayment. The loan is payable in equal quarterly installments on the Principal Repayment Dates which commenced on February 18, 2012.

EPSBPI agrees to pay interest on the outstanding principal amount of borrowings on each interest payment date ending per annum equivalent to the higher of benchmark rate plus a spread of one percent or the overnight rate. Benchmark rate is the three-month PDST-R2 rate as displayed in the PDEx page on the first day of each interest period. While overnight rate means the Bangko Sentral ng Pilipinas overnight reverse repo rate on interest rate settling date.

The term note amounting to ₱114 will mature in 2018.

Facility Loans

These pertain to the unsecured facility loans entered into by PTSMPFI on various dates with a foreign bank amounting to Indonesian Rupiah 19,000 (US$1 or ₱65 as of December 31, 2015). Proceeds were used to refinance capital expenditure requirements. These loans were fully paid at Philippine peso equivalent of ₱70 on December 9, 2016.

The Group is in compliance with the covenants of the debt agreement as of December 31, 2017, 2016 and 2015.

Interest expense recognized in the combined statements of income follows:

	Note	2017	2016	2015
Bonds		**₱2,235**	₱2,633	₱2,526
Term note		**6**	11	17
Facility loans		**—**	8	189
	27	**₱2,241**	₱2,652	₱2,732

The movements in debt issue costs are as follows:

	Note	2017	2016	2015
Balance at beginning of year		**₱193**	₱244	₱300
Amortization	*27*	**(48)**	(51)	(56)
Balance at end of year		**₱145**	₱193	₱244

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2018	₱ 114	₱ —	₱ 114
2019	12,810	28	12,782
2021	12,462	64	12,398
2022	7,000	36	6,964
2024	2,538	17	2,521
	₱34,924	**₱145**	**₱34,779**

Changes in liabilities arising from financing activities are as follows:

	2017
Balance at beginning of the year	**₱37,846**
Payment of borrowings	**(3,115)**
Amortization of debt issue costs	**48**
Balance at end of year	**₱34,779**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 34.

20. Income Taxes

Deferred tax assets and deferred tax liabilities arise from the following:

	2017	2016	2015
Net defined benefit retirement obligation and equity reserve for retirement plan	**₱1,612**	₱1,569	₱1,789
Allowance for impairment losses on receivables and write-down of inventories	**898**	878	903
NOLCO	**83**	104	255
MCIT	**11**	259	171
Unrealized loss on derivatives — net	**45**	106	56
Others	**89**	78	(58)
	₱2,738	₱2,994	₱3,116

The above amounts are reported in the combined statements of financial position as follows:

	Note	2017	2016	2015
Deferred tax assets	*4*	**₱2,791**	₱3,134	₱3,256
Deferred tax liabilities		**(53)**	(140)	(140)
		₱2,738	₱2,994	₱3,116

The movements of deferred tax assets and liabilities are accounted for as follows:

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31, 2017 Balance at End of Year	December 31, 2017 Deferred Tax Asset	December 31, 2017 Deferred Tax Liability
Net defined benefit retirement obligation and equity reserve for retirement plan	**₱1,569**	**₱ (10)**	**₱53**	**₱—**	**₱1,612**	**₱1,611**	**₱ 1**
Allowance for impairment losses on receivables and write-down of inventories	**878**	**20**	**—**	**—**	**898**	**898**	**—**
NOLCO	**104**	**(21)**	**—**	**—**	**83**	**83**	**—**
MCIT	**259**	**(248)**	**—**	**—**	**11**	**11**	**—**
Unrealized loss on derivatives — net	**106**	**(61)**	**—**	**—**	**45**	**45**	**—**
Others	**78**	**11**	**—**	**—**	**89**	**143**	**(54)**
	₱2,994	**₱(309)**	**₱53**	**₱—**	**₱2,738**	**₱2,791**	**₱(53)**

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31, 2016 Balance at End of Year	December 31, 2016 Deferred Tax Asset	December 31, 2016 Deferred Tax Liability
Net defined benefit retirement obligation and equity reserve for retirement plan	₱1,789	₱ (6)	₱(226)	₱12	1,569	₱1,555	₱ 14
Allowance for impairment losses on receivables and write-down of inventories	903	(25)	—	—	878	878	—
NOLCO	255	(151)	—	—	104	104	—
MCIT	171	88	—	—	259	259	—
Unrealized loss on derivatives — net	56	50	—	—	106	106	—
Others	(58)	136	—	—	78	232	(154)
	₱3,116	₱ 92	₱(226)	₱12	₱2,994	₱3,134	₱(140)

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	December 31, 2015 Balance at End of Year	December 31, 2015 Deferred Tax Asset	December 31, 2015 Deferred Tax Liability
Net defined benefit retirement obligation and equity reserve for retirement plan	₱1,638	₱ (23)	₱174	₱—	₱1,789	₱1,794	₱ (5)
Allowance for impairment losses on receivables and write-down of inventories	828	75	—	—	903	903	—
NOLCO	782	(527)	—	—	255	255	—
MCIT	94	77	—	—	171	171	—
Unrealized loss on derivatives — net	47	9	—	—	56	56	—
Others	(271)	213	—	—	(58)	77	(135)
	₱3,118	₱(176)	₱174	₱—	₱3,116	₱3,256	₱(140)

Income taxes were determined on the basis of SMFB, SMB, GSMI and their respective subsidiaries being separate taxable entities. The current and deferred income taxes of all taxable entities within the Group are calculated separately and the recoverability of the deferred tax assets is also assessed accordingly.

As of December 31, 2017, the NOLCO and MCIT that can be claimed as deduction from future taxable income and deduction from corporate income tax due of each company, respectively, where deferred tax assets have been recognized, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2016	December 31, 2019	₱162	₱ 3
2017	December 31, 2020	118	8
		₱280	**₱11**

Temporary differences on the combined carryforward benefits of MCIT and NOLCO amounting to ₱197, ₱170 and ₱1,296 as of December 31, 2017, 2016 and 2015, respectively, were not recognized. Management believes that it may not be probable that sufficient future taxable profits will be available against which the combined carryforward benefits of MCIT and NOLCO can be utilized.

The components of income tax expense (benefit) are shown below:

	2017	2016	2015
Current	**₱11,326**	₱10,189	₱8,363
Deferred	**309**	(92)	176
	₱11,635	₱10,097	₱8,539

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2017	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subjected to final tax	**(0.43%)**	(0.36%)	(0.37%)
Others — net	**(0.38%)**	(0.03%)	2.72%
Effective income tax rate	**29.19%**	29.61%	32.35%

21. Equity

The combined balances of the Group's equity is shown below:

December 31, 2017

	Note	Historical Consolidated Equity Balances					
		SMFB	SMB	GSMI	Total	Eliminations	Combined Balances
Equity Attributable to Equity Holders of the Combined Entities							
Capital stock		₱ 2,009	₱15,410	₱ 399	₱ 17,818	₱ —	₱ 17,818
Additional paid-in capital		35,235	515	2,539	38,289	—	38,289
Equity reserves		(281)	(1,481)	(395)	(2,157)	—	(2,157)
Retained earnings							
Appropriated		2,999	15,010	2,500	20,509	—	20,509
Unappropriated		21,125	29,076	2,641	52,842	(17)	52,825
Treasury stock		(15,182)	(1,029)	(2,670)	(18,881)	—	(18,881)
	2	45,905	57,501	5,014	108,420	(17)	108,403
Non-controlling Interests	*2*	2,243	3,283	—	5,526	—	5,526
Total Equity	*2*	₱ 48,148	₱60,784	₱ 5,014	₱113,946	₱(17)	₱113,929

Significant changes in the 2017 combined statement of changes in equity:

- Dividend Declaration

  The BOD of each of the combined entities approved the declaration and payment of the following cash dividends to common and preferred shareholders:

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
SMFB				
Common	**February 2, 2017**	**February 17, 2017**	**March 1, 2017**	**₱ 1.50**
	May 9, 2017	**May 24, 2017**	**June 8, 2017**	**1.50**
	August 9, 2017	**August 24, 2017**	**September 7, 2017**	**1.50**
	November 9, 2017	**November 28, 2017**	**December 8, 2017**	**1.50**
Preferred				
FBP2	**February 2, 2017**	**February 17, 2017**	**March 13, 2017**	**14.14225**
	May 9, 2017	**May 24, 2017**	**June 13, 2017**	**14.14225**
	August 9, 2017	**August 24, 2017**	**September 12, 2017**	**14.14225**
	November 9, 2017	**November 28, 2017**	**December 12, 2017**	**14.14225**
SMB				
Common	**March 13, 2017**	**April 7, 2017**	**April 19, 2017**	**0.18**
	May 5, 2017	**June 2, 2017**	**June 14, 2017**	**0.18**
	August 4, 2017	**September 1, 2017**	**September 13, 2017**	**0.18**
	November 3, 2017	**November 24, 2017**	**December 4, 2017**	**0.18**

December 31, 2016

	Note	Historical Consolidated Equity Balances SMFB	SMB	GSMI	Total	Eliminations	Combined Balances
Equity Attributable to Equity Holders of the Combined Entities							
Capital stock		₱ 2,009	₱15,410	₱ 399	₱ 17,818	₱ —	₱ 17,818
Additional paid-in capital		35,235	515	2,539	38,289	—	38,289
Equity reserves		(122)	(2,199)	(376)	(2,697)	—	(2,697)
Retained earnings							
Appropriated		2,999	5,200	2,500	10,699	—	10,699
Unappropriated		16,412	29,768	2,039	48,219	(24)	48,195
Treasury stock		(15,182)	(1,029)	(2,670)	(18,881)	—	(18,881)
	2	41,351	47,665	4,431	93,447	(24)	93,423
Non-controlling Interests	*2*	1,836	3,093	—	4,929	—	4,929
Total Equity	*2*	₱ 43,187	₱50,758	₱ 4,431	₱ 98,376	₱(24)	₱ 98,352

Significant changes in the 2016 combined statement of changes in equity:

- Dividend Declaration

  The BOD of each of the combined entities approved the declaration and payment of the following cash dividends to common and preferred shareholders:

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
SMFB				
Common	February 2, 2016	February 18, 2016	March 1, 2016	₱ 1.20
	May 6, 2016	May 23, 2016	June 3, 2016	1.50
	August 8, 2016	August 23, 2016	September 6, 2016	1.50
	November 8, 2016	November 23, 2016	December 7, 2016	1.50
Preferred				
FBP2	February 2, 2016	February 18, 2016	March 12, 2016	14.14225
	May 6, 2016	May 23, 2016	June 12, 2016	14.14225
	August 8, 2016	August 23, 2016	September 12, 2016	14.14225
	November 8, 2016	November 23, 2016	December 12, 2016	14.14225
SMB				
Common	March 11, 2016	April 8, 2016	April 20, 2016	0.16
	May 6, 2016	June 3, 2016	June 15, 2016	0.16
	August 5, 2016	September 2, 2016	September 14, 2016	0.17
	November 3, 2016	November 25, 2016	December 5, 2016	0.17

December 31, 2015

	Note	Historical Consolidated Equity Balances SMFB	SMB	GSMI	Total	Eliminations	Combined Balances
Equity Attributable to Equity Holders of the Combined Entities							
Capital stock		₱ 2,009	₱15,410	₱ 399	₱ 17,818	₱ —	₱ 17,818
Additional paid-in capital		35,235	515	2,539	38,289	—	38,289
Equity reserves		(317)	(3,417)	(342)	(4,076)	—	(4,076)
Retained earnings							
Appropriated		6,199	—	2,500	8,699	—	8,699
Unappropriated		9,328	27,890	1,678	38,896	(31)	38,865
Treasury stock		(15,182)	(1,029)	(2,670)	(18,881)	—	(18,881)
	2	37,272	39,369	4,104	80,745	(31)	80,714
Non-controlling Interests	2	1,744	2,622	—	4,366	—	4,366
Total Equity	2	₱ 39,016	₱41,991	₱ 4,104	₱ 85,111	₱(31)	₱ 85,080

Significant changes in the 2015 combined statement of changes in equity:

- Redemption of SMFB's Preferred Shares

  On February 3, 2015, SMFB's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding PFP Shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

  The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as of February 17, 2015. The redeemed preferred shares thereafter became part of SMFB's treasury shares.

- Issuance of SMFB's Perpetual Series "2" Preferred Shares

  On January 20, 2015, the BOD of the PSE approved, subject to SEC approval and certain conditions, the application of SMFB to list up to 15,000,000 perpetual series "2" preferred shares (FBP2 Shares) with a par value of ₱10.00 per share to cover SMFB's preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

  On February 5, 2015, the SEC favorably considered SMFB's Registration Statement covering the registration of up to 15,000,000 FBP2 Shares at an offer price of ₱1,000.00 per share (the "FBP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

  On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMFB's application to list up to 15,000,000 FBP2 Shares with a par value of ₱10.00 per share to cover the FBP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

  On February 11, 2015, further to the authority granted by SMFB's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the FBP2 Shares Offering, management determined the terms of the FBP2 Shares (Terms of the Offer), including the initial dividend rate for the FBP2 Shares at 5.6569% per annum.

  A summary of the Terms of the Offer is set out below:

  SMFB, through its underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of ₱1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as: (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to

March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of SMFB, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by SMFB on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMFB, and issued the Order of Registration of up to 15,000,000 FBP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMFB's 15,000,000 FBP2 Shares with par value of ₱10.00 per share were issued and listed with the PSE.

The proceeds from the issuance of FBP2 Shares, net of transaction costs amounted to ₱14,885.

- Dividend Declaration

The BOD of each of the combined entities approved the declaration and payment of the following cash dividends to common and preferred shareholders:

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
SMFB				
Common	February 3, 2015	February 17, 2015	March 3, 2015	₱ 1.20
	May 7, 2015	May 22, 2015	June 5, 2015	1.20
	August 6, 2015	August 24, 2015	September 4, 2015	1.20
	November 6, 2015	November 24, 2015	December 4, 2015	1.20
Preferred				
PFP	February 3, 2015	February 17, 2015	March 3, 2015	20.00
FBP2	May 7, 2015	May 22, 2015	June 12, 2015	14.14225
	August 6, 2015	August 24, 2015	September 12, 2015	14.14225
	November 6, 2015	November 24, 2015	December 12, 2015	14.14225
SMB				
Common	March 11, 2015	April 20, 2015	May 6, 2015	0.15
	May 8, 2015	June 5, 2015	June 17, 2015	0.15
	August 7, 2015	September 4, 2015	September 25, 2015	0.16
	November 6, 2015	November 24, 2015	December 7, 2015	0.16

22. Sales

Sales consist of:

	Note	2017	2016	2015
Sale of goods		**₱251,461**	₱227,200	₱205,148
Service revenues and others		**91**	81	219
Fair valuation adjustments on agricultural produce — net	*9*	**37**	(2)	29
		₱251,589	₱227,279	₱205,396

23. Cost of Sales

Cost of sales consist of:

	Note	2017	2016	2015
Inventories	*9*	**₱ 98,125**	₱ 93,299	₱ 91,006
Taxes and licenses		**52,613**	43,026	35,424
Communications, light, fuel and water		**4,987**	4,016	3,900
Depreciation and amortization	*25*	**4,339**	4,144	3,873
Personnel	*26*	**3,128**	2,825	2,284
Freight, trucking and handling		**2,701**	2,487	2,149
Repairs and maintenance		**1,079**	1,000	937
Rent	*4, 31*	**325**	316	256
Write-down of inventories to net realizable value	*4, 9*	**209**	119	230
Others	*8*	**954**	876	638
		₱168,460	₱152,108	₱140,697

"Taxes and licenses" include excise, real property and business taxes. "Others" include insurance, contracted services, research and development, provision for impairment losses on receivables and various items of manufacturing overhead which are individually immaterial.

24. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2017	2016	2015
Selling	**₱23,657**	₱21,877	₱19,243
Administrative	**17,071**	16,251	14,604
	₱40,728	₱38,128	₱33,847

Selling expenses consist of:

	Note	2017	2016	2015
Freight, trucking and handling		**₱ 7,822**	₱ 7,288	₱ 6,400
Advertising and promotions		**7,036**	6,046	5,306
Personnel	*26*	**2,949**	2,777	2,630
Contracted services		**2,448**	2,256	1,614
Rent	*4, 31*	**1,917**	1,674	1,857
Taxes and licenses		**414**	350	311
Depreciation and amortization	*25*	**327**	296	332
Write-down of inventories to net realizable value	*4, 9*	**54**	117	269
Others	*8*	**690**	1,073	524
		₱23,657	₱21,877	₱19,243

"Others" include insurance, contracted services, office supplies, provision for (reversal of) impairment losses on receivables and various items which are individually immaterial.

Administrative expenses consist of:

	Note	2017	2016	2015
Personnel	*26*	**₱ 6,303**	₱ 5,847	₱ 5,271
Depreciation and amortization	*25*	**2,922**	3,431	2,381
Contracted services		**1,631**	1,369	1,361
Rent	*4, 31*	**980**	832	709
Management fees		**867**	853	1,196
Corporate special program		**710**	424	252
Taxes and licenses		**524**	707	823
Repairs and maintenance		**456**	466	369
Write-down of inventories to net realizable value	*4, 9*	**434**	250	306
Professional fees		**392**	404	325
Communications, light, fuel and water		**375**	359	274
Insurance		**308**	299	294
Travel and transportation		**225**	226	226
Supplies		**222**	261	219
Others	*8*	**722**	523	598
		₱17,071	₱16,251	₱14,604

"Others" include entertainment and amusement, gas and oil, donations, provision for impairment losses on receivables and various items which are individually immaterial.

25. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	2017	2016	2015
Cost of sales:				
Property, plant and equipment	*13*	**₱2,109**	₱2,134	₱2,043
Biological assets	*10*	**2,161**	1,947	1,769
Deferred containers and others		**69**	63	61
	23	**4,339**	4,144	3,873
Selling and administrative expenses:				
Property, plant and equipment	*13*	**641**	748	705
Deferred containers and others		**2,608**	2,979	2,008
	24	**3,249**	3,727	2,713
		₱7,588	₱7,871	₱6,586

"Others" include depreciation of investment property and amortization of computer software and licenses, land use rights, pallets, kegs and CO2 cylinders.

26. Personnel Expenses

Personnel expenses consist of:

	Note	2017	2016	2015
Salaries and allowances		**₱ 7,323**	₱ 6,903	₱ 6,023
Retirement costs	*32*	**915**	841	828
Other employee benefits		**4,142**	3,705	3,334
		₱12,380	₱11,449	₱10,185

Personnel expenses are distributed as follows:

	Note	2017	2016	2015
Cost of sales	23	**₱ 3,128**	₱ 2,825	₱ 2,284
Selling expenses	24	**2,949**	2,777	2,630
Administrative expenses	24	**6,303**	5,847	5,271
		₱12,380	₱11,449	₱10,185

27. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	2017	2016	2015
Interest expense	**₱2,541**	₱3,092	₱3,290
Other financing charges	**117**	120	182
	₱2,658	₱3,212	₱3,472

Amortization of debt issue costs included as part of "Other financing charges" amounted to ₱48, ₱51 and ₱56 in 2017, 2016 and 2015, respectively (Note 19).

Interest expense on notes payable, long-term debt and other liabilities is as follows:

	Note	2017	2016	2015
Notes payable	17	**₱ 300**	₱ 430	₱ 558
Long-term debt	19	**2,241**	2,652	2,732
Others		**—**	10	—
		₱2,541	₱3,092	₱3,290

28. Interest Income

Interest income consists of:

	Note	2017	2016	2015
Interest from short-term investments, cash in banks and others	7	**₱647**	₱490	₱445
Interest on amounts owed by related parties	30	**22**	21	27
		₱669	₱511	₱472

29. Other Charges — net

Other charges — net consists of:

	Note	2017	2016	2015
Rent income	4, 31	**₱ 153**	₱ 131	₱ 90
Gain (loss) on foreign exchange — net	34	**62**	40	(83)
Tolling fees		**62**	32	25
Gain on sale of scrap materials		**26**	30	25
Gain (loss) on derivatives — net	35	**8**	(271)	(173)
Additional provision on impairment[a]	13, 15, 16	**(534)**	(109)	(1,364)
Others — net[b]		**(142)**	(148)	(102)
		₱(365)	₱(295)	₱(1,582)

a. In 2017 and 2015, SMB incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecast sales. These factors, among others, are indications that noncurrent assets of SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired.

The Group assessed that the recoverable amount of SMBB, the cash-generating unit to which these assets belong, is less than the carrying amount of the assets.

Accordingly, impairment loss recognized to reduce carrying amount to recoverable amount are as follows:

	Note	2017	2016	2015
Property, plant and equipment	*13*	**₱534**	₱—	₱ 998
Intangible assets	*15*	**—**	—	13
		₱534	₱—	₱1,011

As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of SMBB has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 17 years, which is the remaining estimated useful life of the assets. Cash flows beyond ten-year period are kept constant.

Key assumptions used for value in use calculation are as follows:

	2017	2016	2015
Sales volume growth rate	**2% - 20%**	4% - 20%	4% - 20%
Pre-tax discount rate	**8.86%**	8.86%	8.86%

SMB's management determined the growth rate and gross contribution rate based on past experiences, future plans and expected market trends.

b. "Others — net" include casualty loss, loss on retirement of breeding stocks and expenses of closed facilities. The depreciation of assets recognized as idle amounting to ₱27, ₱57 and ₱58 in 2017, 2016 and 2015, respectively, is also presented as part of this account.

30. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products to related parties. 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 December 31:

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate Parent Company	**2017**	**₱ 89**	**₱ 1,998**	**₱ 112**	**₱ 557**	On demand; non-interest bearing	Unsecured; no impairment
	2016	54	2,290	56	408		
	2015	46	3,143	55	1,119		
Entities under Common Control of the Intermediate Parent Company	**2017**	**664**	**19,952**	**594**	**4,571**	On demand; non-interest bearing	Unsecured; no impairment
	2016	542	15,470	521	3,551		
	2015	312	11,611	420	2,490		
Joint Venture	**2017**	**—**	**—**	**688**	**94**	On demand; interest bearing	Unsecured; no impairment
	2016	—	—	637	—		
	2015	—	304	664	—		
Retirement Plan	**2017**	**—**	**—**	**—**	**5**	On demand; non-interest bearing	Unsecured; no impairment
	2016	—	—	—	36		
	2015	—	—	—	9		
Associate of the Intermediate Parent Company	**2017**	**—**	**—**	**—**	**4,530**	3 months or less; interest bearing	Unsecured; no impairment
	2016	—	—	—	2,685		
	2015	—	—	—	887		
Shareholders in Subsidiaries and its Affiliates	**2017**	**174**	**493**	**4**	**31**	On demand; non-interest bearing	Unsecured; no impairment
	2016	150	606	14	31		
	2015	—	—	11	136		
Total	**2017**	**₱927**	**₱22,443**	**₱1,398**	**₱9,788**		
Total	2016	₱746	₱18,366	₱1,228	₱6,711		
Total	2015	₱358	₱15,058	₱1,150	₱4,641		

a. Amounts owed by related parties consist of current and noncurrent receivables, deposits and share in expenses (Notes 8, 11 and 16).

b. Amounts owed to related parties consist of trade and non-trade payables (Note 18). Amounts owed to related parties included under "Other noncurrent liabilities" account in the combined statements of financial position amounted to ₱34 as of December 31, 2017.

c. Amounts owed to associate of the Intermediate Parent Company represent interest bearing loans payable to Bank of Commerce presented as part of "Notes payable" account in the combined statements of financial position (Note 17).

d. The Group has entered into various lease agreements with related parties as a lessor and lessee (Note 31).

e. TSML executed various promissory notes in favor of GSMI.

- Principal sum of THB250 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
- Principal sum of THB50 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
- Principal sum of THB25 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
- Principal sum of THB75 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
- Principal sum of THB75 together with interest of 3.0% per annum, which interest shall accrue on April 7, 2011.

The principal sum is due and payable in full on demand of GSMI and the stipulated interest shall be payable every three months.

The receivables from TSML amounting to ₱688, ₱637 and ₱664 as of December 31, 2017, 2016 and 2015, respectively, are included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the combined statements of financial position (Note 8).

Interest income from amounts owed by TSML, recognized in the combined statements of income, amounted to ₱22, ₱21 and ₱27 in 2017, 2016 and 2015, respectively (Note 28).

f. The compensation of the key management personnel of the Group, by benefit type, follows:

	Note	2017	2016	2015
Short-term employee benefits		**₱427**	₱359	₱333
Retirement costs	*32*	**50**	41	42
		₱477	₱400	₱375

31. Lease Commitments

Operating Leases

Group as Lessor

The Group has entered into lease agreements on its investment property, offices and machinery and equipment. The non-cancellable leases have lease term of one to five years. Some lease agreements include a clause to enable upward revision of the rental change on an accrual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2017	2016	2015
Within one year	**₱151**	₱111	₱121
After one but not more than five years	**134**	83	116
	₱285	₱194	₱237

Rent income recognized in the combined statements of income amounted to ₱153, ₱131 and ₱90 in 2017, 2016 and 2015, respectively (Notes 4 and 29).

Group as Lessee

The Group leases a number of equipment, offices, warehouses, factory facilities and parcels of land under operating lease. The leases will expire in various terms. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2017	2016	2015
Within one year	**₱ 175**	₱ 150	₱ 77
After one but not more than five years	**438**	270	88
After five years	**1,748**	1,340	947
	₱2,361	₱1,760	₱1,112

Rent expense recognized in the combined statements of income amounted to ₱3,222 in 2017 and ₱2,822 both in 2016 and 2015 (Notes 4, 23 and 24).

32. Retirement Plans

SMFB, SMB and GSMI, including majority of their subsidiaries, have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering certain number of their permanent employees. The Retirement Plans pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2017. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the Bureau of Internal Revenue as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of Retirement Plans are vested in the Board of Trustees (BOT) of each Retirement Plan. Majority of the BOT of the Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of SMFB, SMB, GSMI and their subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by Retirement Funds Office of SMC.

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Fair Value of Plan Assets			Present Value of Defined Benefit Retirement Obligation			Effect of Asset Ceiling			Net Defined Benefit Retirement Liability		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Balance at beginning of year	**₱13,793**	₱10,391	₱ 9,602	**₱(15,836)**	₱(14,724)	₱(13,973)	**₱ (5)**	₱—	₱—	**₱(2,048)**	₱(4,333)	₱(4,371)
Recognized in profit or loss												
Service costs	**—**	—	—	**(812)**	(667)	(649)	**—**	—	—	**(812)**	(667)	(649)
Interest expense	**—**	—	—	**(793)**	(710)	(616)	**—**	—	—	**(793)**	(710)	(616)
Interest income	**690**	536	437	**—**	—	—	**—**	—	—	**690**	536	437
	690	536	437	**(1,605)**	(1,377)	(1,265)	**—**	—	—	**(915)**	(841)	(828)
Recognized in other comprehensive income												
Remeasurements												
Actuarial gains (losses) arising from:												
Experience adjustments	**—**	—	—	**(1,944)**	(592)	(678)	**—**	—	—	**(1,944)**	(592)	(678)
Changes in financial assumptions	**—**	—	—	**784**	177	237	**—**	—	—	**784**	177	237
Changes in demographic assumptions	**—**	—	—	**148**	41	212	**—**	—	—	**148**	41	212
Return on plan asset excluding interest	**858**	1,172	(396)	**—**	—	—	**—**	—	—	**858**	1,172	(396)
Changes in the effect of asset ceiling	**—**	—	—	**—**	—	—	**5**	(5)	—	**5**	(5)	—
	858	1,172	(396)	**(1,012)**	(374)	(229)	**5**	(5)	—	**(149)**	793	(625)
Others												
Contributions	**1,001**	2,350	1,473	**—**	—	—	**—**	—	—	**1,001**	2,350	1,473
Benefits paid	**(737)**	(700)	(740)	**749**	707	743	**—**	—	—	**12**	7	3
Other adjustments	**1**	44	15	**7**	(68)	—	**—**	—	—	**8**	(24)	15
	265	1,694	748	**756**	639	743	**—**	—	—	**1,021**	2,333	1,491
Balance at end of year	**₱15,606**	₱13,793	₱10,391	**₱(17,697)**	₱(15,836)	₱(14,724)	**₱—**	₱ (5)	₱—	**₱(2,091)**	₱(2,048)	₱(4,333)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs recognized in the combined statements of income amounted to ₱915, ₱841 and ₱828 in 2017, 2016 and 2015, respectively (Note 26).

The above net defined benefit retirement liability was included in the combined statements of financial position as part of:

	Note	2017	2016	2015
Other noncurrent assets	*16*	**₱ 12**	₱ 113	₱ 7
Other noncurrent liabilities		**(2,103)**	(2,161)	(4,340)
		₱(2,091)	₱(2,048)	₱(4,333)

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2017, 2016 and 2015.

The Group's plan assets consist of the following:

	In Percentages		
	2017	2016	2015
Investments in marketable securities and shares of stock	**59.8**	60.1	45.8
Investments in pooled funds:			
Stock trading portfolio	**11.8**	13.4	16.3
Fixed income portfolio	**16.2**	16.4	16.6
Investments in real estate	**0.5**	0.5	0.3
Others	**11.7**	9.6	21.0

Investments in Marketable and Debt Securities

As of December 31, 2017, the plan assets include:

- 22,246,890 common shares, 783,000 Subseries "2-B", 2,712,300 Subseries "2-D", 2,666,700 Subseries "2-E", 8,000,000 Subseries "2-F" and 6,153,600 Subseries "2-I" preferred shares of SMC with fair market value per share of ₱111.60, ₱76.50, ₱75.65, ₱76.50, ₱81.95 and ₱79.80, respectively;
- Investment in SMC bonds amounting to ₱367;
- 250,000 preferred shares of Petron Corporation (Petron) with fair market value per share of ₱1,060.00;
- Investment in Petron bonds amounting to ₱144;
- 28,549,900 common shares of SMB with fair market value per share of ₱20.00;
- Investment in SMB bonds amounting to ₱816;
- 14,883,385 common shares of GSMI with fair market value per share of ₱26.85;
- 225,110 common shares and 250,000 FBP2 shares of SMFB with fair market value per share of ₱529.00 and ₱1,000.00, respectively;
- 3,121,413 common shares of Top Frontier with fair market value per share of ₱286.00;
- Investment in South Luzon Tollway Corporation (SLTC) bonds amounting to ₱226; and
- Investment in SMC Global Power Holdings Corp. (SMC Global) bonds amounting to ₱197.

As of December 31, 2016, the plan assets include:

- 23,927,600 common shares, 783,000 Subseries "2-B", 2,666,700 Subseries "2- D", 2,666,700 Subseries "2-E", 8,000,000 Subseries "2-F", 6,153,600 Subseries "2-I" preferred shares of SMC with fair market value per share of ₱92.30, ₱80.00, ₱76.00, ₱78.20, ₱79.50 and ₱78.00, respectively;

- 250,000 preferred shares of Petron with fair market value per share of ₱1,045.00;
- Investment in Petron bonds amounting to ₱145;
- 28,549,900 common shares of SMB with fair market value per share of ₱20.00;
- Investment in SMB bonds amounting to ₱936;
- 15,478,585 common shares of GSMI with fair market value per share of ₱12.70;
- 225,110 common shares and 250,000 FBP2 shares of SMFB with fair market value per share of ₱231.00 and ₱1,028.00, respectively;
- 3,121,413 common shares of Top Frontier with fair market value per share of ₱262.00;
- Investment in SLTC bonds amounting to ₱242; and
- Investment in SMC Global bonds amounting to ₱98.

As of December 31, 2015, the plan assets include:

- 6,049,530 common shares, 783,000 Subseries "2-B", 2,666,700 Subseries "2-D", 2,666,700 Subseries "2-E", 8,000,000 Subseries "2-F" preferred shares of SMC with fair market value per share of ₱49.90, ₱77.40, ₱85.00, ₱76.00 and ₱79.90, respectively;
- 250,000 preferred shares of Petron with fair market value per share of ₱1,070.00;
- Investment in Petron bonds amounting to ₱96;
- 28,549,900 common shares of SMB with fair market value per share of ₱20.00;
- Investment in SMB bonds amounting to ₱939;
- 13,078,585 common shares of GSMI with fair market value per share of ₱12.28;
- 225,110 common shares and 250,000 FBP2 shares of SMFB with fair market value per share of ₱129.00 and ₱1,029.00, respectively;
- 263,663 common shares of Top Frontier with fair market value per share of ₱67.60; and
- Investment in SLTC bonds amounting to ₱242.

The fair market value per share of the above shares of stock is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized gains (losses) on the investment in marketable securities of SMC and its subsidiaries amounting to ₱844, ₱1,064 and (₱32) in 2017, 2016 and 2015, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to ₱185, ₱151 and ₱90 in 2017, 2016 and 2015, respectively.

Investments in Shares of Stock

The Group's plan assets also include SMB Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI (inclusive of nominee shares), accounted for under the cost method, amounting to ₱480, ₱481 and ₱471 as of December 31, 2017, 2016 and 2015, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of SMC and its domestic subsidiaries to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The BOT of the Group's Retirement Plans approved the percentage of assets to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment income and expenses are allocated to the plans based on their pro-rata share in net assets of pooled funds. The Retirement Plans' interests in the net assets of the pooled funds were 55.5%, 58.8% and 50.2% of fixed income portfolio as of December 31, 2017, 2016 and 2015, respectively. The Retirement Plans' interests in net assets of the pooled funds were 75.2%, 69.6% and 70.3% of stock trading portfolio as of December 31, 2017, 2016 and 2015, respectively.

Approximately 36.3%, 28.7% and 11.2% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2017, 2016 and 2015, respectively.

Approximately 37.9%, 39.0% and 32.1% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2017, 2016 and 2015, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to ₱69, ₱69 and ₱32 as of December 31, 2017, 2016 and 2015, respectively.

Others

Others include the Retirement Plans' investments in government securities, cash and cash equivalents and receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute the amount of ₱1,061 to the Retirement Plans in 2018.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages		
	2017	**2016**	**2015**
Discount rate	**5.70% - 7.00%**	4.81% - 8.25%	4.47% - 9.00%
Salary increase rate	**7.00% - 8.00%**	7.00% - 8.00%	7.00% - 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 6.80 to 13.80 years, 1.90 to 10.63 years and 1.90 to 9.00 years as of December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, 2016 and 2015, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	2017		2016		2015	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	**₱(1,279)**	**₱ 1,494**	₱(572)	₱ 697	₱(523)	₱ 607
Salary increase rate	**1,326**	**(1,157)**	633	(534)	536	(473)

BLI has amounts owed to SMB Retirement Plan amounting to ₱5, ₱7 and ₱9 as of December 31, 2017, 2016 and 2015, respectively, included as part of "Trade payables and other current liabilities" account in the combined statements of financial position (Notes 18 and 30).

The outstanding payables of GSMI to GSMI Retirement Plan amounted to ₱29 as of December 31, 2016 included as part of "Trade payables and other current liabilities" account in the combined statements of financial position (Notes 18 and 30).

33. Employee Stock Purchase Plan

SMFB and SMB

SMC offers shares of stocks to employees of SMC and certain subsidiaries (including SMFB, SMB and certain subsidiaries of SMFB and SMB) under the ESPP. Under the ESPP, all permanent Philippine-based employees who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

There were no shares offered under the ESPP in 2017, 2016 and 2015.

There were no expenses for share-based payments that were paid and charged by SMC to the Group in 2017, 2016 and 2015.

GSMI

Under the ESPP, 3,000,000 shares (inclusive of stock dividends declared) of GSMI's unissued shares have been reserved for the employees of GSMI. All permanent Philippine-based employees of GSMI, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to GSMI until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

There was no subscriptions receivable as of December 31, 2017 and 2016. Subscription receivable as of December 31, 2015 was minimal.

The ESPP also allows subsequent withdrawal and cancelation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or canceled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock.

There were no shares offered under the ESPP in 2017, 2016 and 2015. The shares covered by the ESPP are no longer available for subscription as the offering period provided under the said plan expired on January 21, 2013.

34. 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, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, trade payables and other current liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity options and currency forwards are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price and foreign currency risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the combined financial statements.

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

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

The BOD also constituted the Board Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's enterprise risk management (ERM) system to ensure its functionality and effectiveness. The Board Risk Oversight Committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the BOD of the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Group.

Interest Rate Risk

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

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱2, ₱3 and ₱9 in 2017, 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

December 31, 2017	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	**₱ 114**	**₱ —**	**₱ —**	**₱ —**	**₱ 114**
Interest rate	**PDST-R2+ margin or BSP overnight rate, whichever is higher**				
Fixed Rate					
Philippine peso-denominated	**—**	**12,810**	**19,462**	**2,538**	**34,810**
Interest rate		**5.93%-10.5%**	**5.5%-6.6%**	**6%**	
	₱ 114	**₱ 12,810**	**₱ 19,462**	**₱2,538**	**₱34,924**

December 31, 2016	<1 Year	>1 - 3 Years	>3 -5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	₱ 115	₱ 114	₱ —	₱ —	₱ 229
Interest rate	PDST-R2+ margin or BSP overnight rate, whichever is higher	PDST-R2+ margin or BSP overnight rate, whichever is higher			
Fixed Rate					
Philippine peso-denominated	3,000	12,810	12,462	9,538	37,810
Interest rate	6.05%	5.93%-10.5%	5.5%	6%-6.6%	
	₱ 3,115	₱ 12,924	₱12,462	₱ 9,538	₱38,039

December 31, 2015	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	₱ 114	₱ 229	₱ —	₱ —	₱ 343
Interest rate	PDST-R2+ margin or BSP overnight rate, whichever is higher	PDST-R2+ margin or BSP overnight rate, whichever is higher			
Fixed Rate					
Philippine peso-denominated	—	3,000	12,810	22,000	37,810
Interest rate		6.05%	5.93%-10.5%	5.5%-6.6%	
Foreign currency-denominated (expressed in Philippine peso)	65	—	—	—	65
Interest rate	12.45%-13.27%				
	₱ 179	₱ 3,229	₱12,810	₱22,000	₱38,218

Foreign Currency Risk

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

The Group uses natural hedges and/or purchases foreign currencies at spot rates, where necessary, to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

	2017		2016		2015	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets						
Cash and cash equivalents	**US$174**	**₱ 8,699**	US$140	₱6,952	US$110	₱5,172
Trade and other receivables	**46**	**2,279**	53	2,663	61	2,832
Noncurrent receivables	**—**	**8**	—	8	—	10
	220	**10,986**	193	9,623	171	8,014
Liabilities						
Notes payable	**3**	**148**	3	157	2	106
Trade payables and other current liabilities	**62**	**3,063**	56	2,794	67	3,124
	65	**3,211**	59	2,951	69	3,230
Net foreign currency-denominated monetary assets	**US$155**	**₱ 7,775**	US$134	₱6,672	US$102	₱4,784

* US dollar equivalent of foreign currency-denominated balances as of reporting date.

The Group reported net foreign exchange gains (losses) amounting to ₱62, ₱40 and (₱83) in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 29). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2017	**49.93**
December 31, 2016	49.72
December 31, 2015	47.06

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

	December 31, 2017			
	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	**₱(3)**	**₱(173)**	**₱ 3**	**₱173**
Trade and other receivables	**(2)**	**(45)**	**2**	**45**
	(5)	**(218)**	**5**	**218**
Notes payable	**—**	**3**	**—**	**(3)**
Trade payables and other current liabilities	**12**	**57**	**(12)**	**(57)**
	12	**60**	**(12)**	**(60)**
	₱ 7	**₱(158)**	**₱ (7)**	**₱158**

	December 31, 2016			
	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	₱(5)	₱(138)	₱ 5	₱138
Trade and other receivables	(2)	(53)	2	53
	(7)	(191)	7	191
Notes payable	—	3	—	(3)
Trade payables and other current liabilities	7	54	(7)	(54)
	7	57	(7)	(57)
	₱—	₱(134)	₱—	₱134

	December 31, 2015			
	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	₱(2)	₱(109)	₱ 2	₱109
Trade and other receivables	(3)	(59)	3	59
	(5)	(168)	5	168
Notes payable	—	2	—	(2)
Trade payables and other current liabilities	18	61	(18)	(61)
	18	63	(18)	(63)
	₱13	₱(105)	₱(13)	₱105

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 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 of Companies and managing inventory levels of common materials.

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

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

Liquidity Risk

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

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

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

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

December 31, 2017	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	**₱35,540**	**₱35,540**	**₱35,540**	**₱ —**	**₱ —**	**₱ —**
Trade and other receivables — net	**18,237**	**18,237**	**18,237**	**—**	**—**	**—**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**61**	**61**	**61**	**—**	**—**	**—**
AFS financial assets (included under "Investments" account)	**53**	**53**	**—**	**—**	**—**	**53**
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	**574**	**574**	**—**	**121**	**186**	**267**
Financial Liabilities						
Notes payable	**13,939**	**13,970**	**13,970**	**—**	**—**	**—**
Trade payables and other current liabilities (excluding derivative liabilities)	**33,491**	**33,491**	**33,491**	**—**	**—**	**—**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**118**	**118**	**118**	**—**	**—**	**—**
Long-term debt (including current maturities)	**34,779**	**41,186**	**2,304**	**14,335**	**21,818**	**2,729**
Other noncurrent liabilities (excluding retirement and other non-financial liabilities)	**30**	**30**	**—**	**30**	**—**	**—**

December 31, 2016	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	₱30,332	₱30,332	₱30,332	₱ —	₱ —	₱ —
Trade and other receivables — net	18,728	18,728	18,728	—	—	—
Derivative assets (included under "Prepaid expenses and other current assets" account)	8	8	8	—	—	—
AFS financial assets (included under "Investments" account)	53	53	—	—	—	53
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	147	147	—	75	54	18
Financial Liabilities						
Notes payable	13,124	13,163	13,163	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	26,616	26,616	26,616	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account)	242	242	242	—	—	—
Long-term debt (including current maturities)	37,846	46,541	5,355	2,305	28,883	9,998

December 31, 2015	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	₱25,580	₱25,580	₱25,580	₱ —	₱ —	₱ —
Trade and other receivables — net	18,128	18,128	18,128	—	—	—
Derivative assets (included under "Prepaid expenses and other current assets" account)	12	12	12	—	—	—
AFS financial assets (included under "Investments" account)	71	71	—	—	—	71
Noncurrent receivables and deposits — net (included under "Other noncurrent assets" account)	147	147	—	111	11	25
Financial Liabilities						
Notes payable	11,982	12,038	12,038	—	—	—
Trade payables and other current liabilities (excluding derivative liabilities)	25,288	25,288	25,288	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account)	92	92	92	—	—	—
Long-term debt (including current maturities)	37,974	49,112	2,569	5,356	17,940	23,247

Credit Risk

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

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

Trade and Other Receivables

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

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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.

	Note	2017	2016	2015
Cash and cash equivalents (excluding cash on hand)	*7*	**₱35,403**	₱30,257	₱25,458
Trade and other receivables — net	*8*	**18,237**	18,728	18,128
Derivative assets	*11*	**61**	8	12
Noncurrent receivables and deposits — net	*16*	**574**	147	147
		₱54,275	₱49,140	₱43,745

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.

Financial and Other Risks Relating to Livestock

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

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

The Group is not subject to externally-imposed capital requirements.

35. Financial Assets and Financial Liabilities

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

	December 31, 2017		December 31, 2016		December 21, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets						
Cash and cash equivalents	**₱35,540**	**₱35,540**	₱30,332	₱30,332	₱25,580	₱25,580
Trade and other receivables — net	**18,237**	**18,237**	18,728	18,728	18,128	18,128
Derivative assets (included under "Prepaid expenses and other current assets" account)	**61**	**61**	8	8	12	12
AFS financial assets (included under "Investments" account)	**53**	**53**	53	53	71	71
Noncurrent receivables and deposits -net (included under "Other noncurrent assets" account)	**574**	**574**	147	147	147	147
Financial Liabilities						
Notes payable	**13,939**	**13,939**	13,124	13,124	11,982	11,982
Trade payables and other current liabilities (excluding derivative liabilities)	**33,491**	**33,491**	26,616	26,616	25,288	25,288
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**118**	**118**	242	242	92	92
Long-term debt (including current maturities)	**34,779**	**36,395**	37,846	40,320	37,974	41,491
Other noncurrent liabilities (excluding retirement and other non-financial liabilities)	**30**	**30**	—	—	—	—

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 amounts of cash and cash equivalents, and trade and other receivables approximate fair values 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 the expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. Discount rates used for Philippine peso-denominated loans ranged from 2.5% to 5.1%, 2.1% to 4.9%, and 2.6% to 4.5% as of December 31, 2017, 2016 and 2015, respectively. Discount rates used for foreign currency-denominated loans range from 7.95% to 9.10% as of December 31, 2015. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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, through SMC, enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rates and commodity price risk. The portfolio is a mixture of instruments including futures, swaps and options.

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group. As of December 31, 2017, 2016 and 2015, the Group has no outstanding bought and sold options covering its wheat and soybean meal requirements.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As of December 31, 2017, 2016 and 2015, the total outstanding notional amount of such embedded currency forwards amounted to US$100, US$113 and US$98, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to ₱57, ₱234 and ₱80 as of December 31, 2017, 2016 and 2015, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to ₱8, (₱271) and (₱173) in 2017, 2016 and 2015, respectively (Note 29).

Fair Value Changes on Derivatives

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

	Note	2017	2016	2015
Balance at beginning of year		**₱(234)**	₱ (80)	₱ (65)
Net change in fair value of non-accounting hedges	29	**8**	(271)	(173)
		(226)	(351)	(238)
Less fair value of settled instruments		**(169)**	(117)	(158)
Balance at end of year		**₱ (57)**	₱(234)	₱ (80)

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the combined 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 (Note 3).

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

	December 31, 2017			December 31, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets									
Derivative assets	**₱—**	**₱ 61**	**₱ 61**	₱—	₱ 8	₱ 8	₱—	₱12	₱12
AFS financial assets	**50**	**3**	**53**	52	1	53	70	1	71
Financial Liabilities									
Derivative liabilities	**—**	**118**	**118**	—	242	242	—	92	92

The Group has no financial instruments valued based on Level 3 as of December 31, 2017, 2016 and 2015. In 2017, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

36. Registration with the Board of Investments (BOI) and the Authority of Freeport Area of Bataan (AFAB)

Certain expansion projects of SMFB's consolidated subsidiaries are registered with the BOI, as pioneer and non-pioneer status, or with AFAB. As registered enterprises, these SMFB's subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives.

SMFI

SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of the Omnibus Investments Code of 1987 (Executive Order No. 226), the projects are entitled, among others, to the following incentives:

a. *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to income tax holiday (ITH) for a period of six years, extendable under certain conditions to eight years.

   SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

b. *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under

Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

c. *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

d. *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

e. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

f. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts*. The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

g. *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Great Food Solutions project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the AFAB as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057.

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in Executive Order No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

SMMI

SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in Executive Order No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On November 9, 2017, the BOI approved the change in the start date of the ITH entitlement of the flour mill expansion project to December 2018 or actual start of commercial operations, whichever is earlier.

PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in Executive Order No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

37. Other Matters

a. *Purchase of Felicisimo Martinez & Co. Inc.'s (FMC) Manufacturing Plant by Magnolia*

On December 15, 2017, Magnolia entered into an Asset Purchase Agreement (the "Agreement") with FMC for the purchase of FMC's parcels of land, buildings and improvements, and machineries and equipment (collectively, the "Purchased Assets") pertaining to the manufacturing plant where Magnolia's *La Pacita* biscuits are being toll-manufactured. The refundable deposit paid by Magnolia in December 2017 was recognized by Magnolia as part of "Non-trade receivables" as of December 31, 2017.

In February 2018, the refundable deposit was reversed and the acquisition by Magnolia of the Purchased Assets was completed following the substantial fulfillment of the closing conditions of the Agreement and the payment of the consideration for such Purchased Assets.

b. *Toll Agreements*

The significant subsidiaries of SMFB have entered into toll processing agreements with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the "Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary permits and licenses, manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreements vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses amounted to ₱7,759, ₱7,309 and ₱6,733 in 2017, 2016 and 2015, respectively.

c. *Amendment in Articles of Incorporation of SMB*

On December 5, 2014, the BOD of SMB approved the amendment of Article II (Primary Purpose) of the Amended Articles of Incorporation (AOI) of SMB to include the non-alcoholic beverage business (Proposed Amendment). SMB obtained the affirmative vote of stockholders owning or representing at least two-thirds of the outstanding capital stock of SMB to the Proposed Amendment, through their respective written assent received by SMB as of February 20, 2015. The SEC approved the Proposed Amendment to SMB's AOI on March 11, 2015.

d. *Claims for Tax Refund*

i. Filed by SMC

On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light," one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) First Division under two cases, CTA Case Nos. 7052 and 7053. To these cases was consolidated SMC's claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it for its "San Mig Light" product for the period of February 2, 2004 to November 30, 2005 (docketed as CTA Case No. 7405). The CTA, through its First Division, and the CTA *En Banc* (on appeal), both ruled in favor of SMC. On April 1, 2013, the BIR elevated the consolidated cases to the Supreme Court (docketed as G.R. No. 205723).

SMC filed with the CTA by way of petition for review (Third Division and docketed as CTA Case No. 7708), a second claim for refund for overpayments of excise taxes for the period of December 1, 2005 to July 31, 2007 on November 27, 2007, as SMC was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. The CTA Third Division granted SMC's petition for review and ordered the BIR to refund or issue a tax credit certificate in favor of SMC. The BIR elevated the decision of the Third Division to the CTA *En Banc* but its appeal was denied. Subsequently, the BIR filed a petition for review with the Supreme Court (docketed as G.R. No. 205045).

On January 25, 2017, the Supreme Court decided in the consolidated cases of GR Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of ₱926 for the period December 1, 2005 to July 31, 2007, and ₱782 for the period February 2, 2004 to November 30, 2005. The office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017.

SMC filed its third claim for refund with the CTA (Third Division docketed as CTA Case No. 7953) on July 24, 2009 for overpayments of excise taxes for the period of August 1, 2007 to September 30, 2007. This case was consolidated with CTA Case No. 7973 below.

ii. Filed by SMB

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

SMB filed nine claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 — Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 — First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 — Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 — Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 — Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 — docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 — docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 — docketed as CTA Case No. 9513 (December 2016); and

(i) ninth claim for refund of overpayments for the period of January 1, 2016 to December 31, 2016 — docketed as CTA Case No. 9743.

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMB and ordered the BIR to refund SMB the amount of ₱828. The BIR appealed to the CTA *En Banc* which affirmed the Decision of the

Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions. With the decisions in favor of SMB, SMB, through counsel, shall move for the execution of the Decision.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division. The case was not elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of ₱730, while the BIR filed a Petition for Certiorari before the Supreme Court. The Petition was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB received a clarificatory Resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's Petition for Certiorari and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB, through counsel, shall proceed with the enforcement of the writ of execution.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA *En Banc*. The BIR was ordered to refund SMB the amount of ₱699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the Supreme Court through its July 24, 2017 Resolution. With the decisions in favor of SMB, SMB, through counsel, shall move for the execution of the Decision.

CTA Case No. 8591 was decided in favor of SMB by the CTA's Second Division and *En Banc*. The BIR elevated the case to the Supreme Court, where it remains pending to date.

CTA Case Nos. 8748, 8955, 9223, 9513 and 9743 are still pending in the CTA *En Banc* or in their respective Divisions.

iii. Filed by GSMI

(a) GSMI vs. Commissioner of Internal Revenue
CTA Case Nos. 8953 and 8954 (Consolidated)
Third Division

These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of ₱582 in Case No. 8953, and ₱133 in Case No. 8954, or in the total amount of ₱715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from 1 January 2013 up to 31 May 2013 in Case No. 8953, and from 8 January 2013 up to 31 March 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

These cases are still pending with the CTA.

(b) GSMI vs. Commissioner of Internal Revenue CTA Case No. 9059 Second Division

This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of ₱26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from 1 June 2013 up to 31 July 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

This case is still pending with the CTA.

e. *Pending Tax Cases*

i. SMB

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of ₱270 on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Reconsideration which is still pending before the CTA *En Banc*.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc*. In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of ₱110, where SMB requested for the cancellation of the surcharge and interests. As of December 31, 2017, both the Petition for Review and IBI's application for abatement remain pending for resolution by the CTA *En Banc* and the BIR, respectively.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax (DST) and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. The case is currently pending while, at the same time, an application for abatement was submitted to the BIR in August 2017. As of December 31, 2017, both the Petition for Review and the application for abatement remain pending for resolution by the CTA and the BIR, respectively.

ii. SMFB

(a) SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of Monterey Foods Corporation (MFC) for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand (FLD)/Final Assessment Notice (FAN) issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of a valid Letter of Authority (LoA). Accordingly, the FLD/FAN issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

(b) SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credits from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

f. Intellectual Property Cases Pending with the Supreme Court

i. GSMI vs. Director General of the Intellectual Property Office
G.R. No. 196372
Third Division

This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. Unfortunately, the Supreme Court denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of "League of Cities vs. Commission of Elections" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. This case is still pending with the Supreme Court.

ii. Tanduay Distillers, Inc. vs. GSMI
G.R. Nos. 210224 and 219632
Third Division

These cases pertain to GSMI's complaint for trademark infringement and unfair competition against Tanduay Distillers, Inc. (TDI) filed with the Regional Trial Court (RTC), arising from TDI's distribution and sale of "Ginebra Kapitan" and use of a bottle design similar to that used by GSMI. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two (2) cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court. These cases are still pending with the Supreme Court.

iii. Tanduay Distillers, Inc. vs. GSMI
G.R. No. 216104
Third Division

This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.", docketed as G.R. No. 210224. This case is still pending with the Supreme Court.

g. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor-related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the combined financial statements of the Group.

h. Commitments

The outstanding purchase commitments of the Group amounted to ₱32,430, ₱27,896 and ₱22,516 as of December 31, 2017, 2016 and 2015, respectively.

Amount authorized but not yet disbursed for capital projects is approximately ₱39,067, ₱23,502 and ₱23,096 as of December 31, 2017, 2016 and 2015, respectively.

i. Foreign Exchange Rate

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and joint ventures to Philippine peso were closing rates of ₱49.93, ₱49.72 and ₱47.06 in 2017, 2016 and 2015, respectively, for combined statements of financial position accounts; and average rates of ₱50.40, ₱47.48 and ₱45.50 in 2017, 2016 and 2015, respectively, for income and expense accounts.

38. Events After the Reporting Date

a) On February 1, 2018, SMFB's BOD declared cash dividends to all common shareholders of record as of February 19, 2018 amounting to ₱2.00 per share, which was paid on March 1, 2018. SMFB's BOD likewise declared on February 1, 2018 cash dividends to all preferred (series 2) shareholders of record as of February 19, 2018 amounting to ₱14.14225 per share, which was paid on March 12, 2018.

b) On February 6, 2018, the BOD and shareholders of SMSCCI ratified the increase in SMSCCI's authorized capital stock from ₱500, consisting of 50,000,000 common shares at a par value of ₱10.00 per share, to ₱1,000, consisting of 100,000,000 common shares at the same par value, as previously approved by the BOD and shareholders of SMSCCI on December 14, 2016.

c) On March 9, 2018, the BOD of SMB declared cash dividends at ₱0.20 per share to all stockholders of record as of April 6, 2018 paid on April 18, 2018.

d) On May 3, 2018, the BOD of SMB declared cash dividends amounting to ₱0.20 per share to all stockholders of record as of June 1, 2018, payable on June 13, 2018.

e) On May 9, 2018, SMFB's BOD declared cash dividends to all common shareholders of record as of May 24, 2018 amounting to ₱0.20 per share, payable on June 8, 2018. SMFB's BOD likewise declared on May 9, 2018 cash dividends to all preferred (series 2) shareholders of record as of May 24, 2018 amounting to ₱14.14225 per share, payable on June 13, 2018.

f) On May 11, 2018, the stockholders of SMFB approved the following amendments to the By-laws of SMFB previously approved by the BOD on March 14, 2018: (i) the change in the corporate name to "San Miguel Food and Beverage, Inc." in the title of the By-laws; (ii) the change in Official Seal of SMFB to reflect the said new corporate name in Article XI of the By-laws; and (iii) the disqualification for director in SMFB to the effect that persons engaged in any business that compete with or is antagonistic to that of SMFB are disqualified from sitting in the BOD of SMFB, in Article II, Section 1 of the By-laws.

Also on May 11, 2018, SMFB's stockholders approved the delegation to management of the authority previously approved by the BOD on May 9, 2018, to sign, execute and deliver all documents on behalf of SMFB, as well as to take all other actions in order for SMFB to comply with the minimum public ownership requirement of the SEC and PSE for publicly listed companies, including the offer and issuance of new common shares to the public.

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
San Miguel Food and Beverage, Inc.
(formerly San Miguel Pure Foods Company Inc.)
23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City

We have audited, in accordance with Philippine Standards on Auditing, the combined financial statements of San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.), San Miguel Brewery Inc. and Ginebra San Miguel Inc., including their respective consolidated subsidiaries (the "San Miguel Food and Beverage Group" or the "Group") which comprise the combined statements of financial position as at December 31, 2017, 2016 and 2015, and the combined statements of income, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the three years then ended, and notes, comprising significant accounting policies and other explanatory information, and have issued our report thereon dated June 7, 2018.

Our audits were made for the purpose of forming an opinion on the combined financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

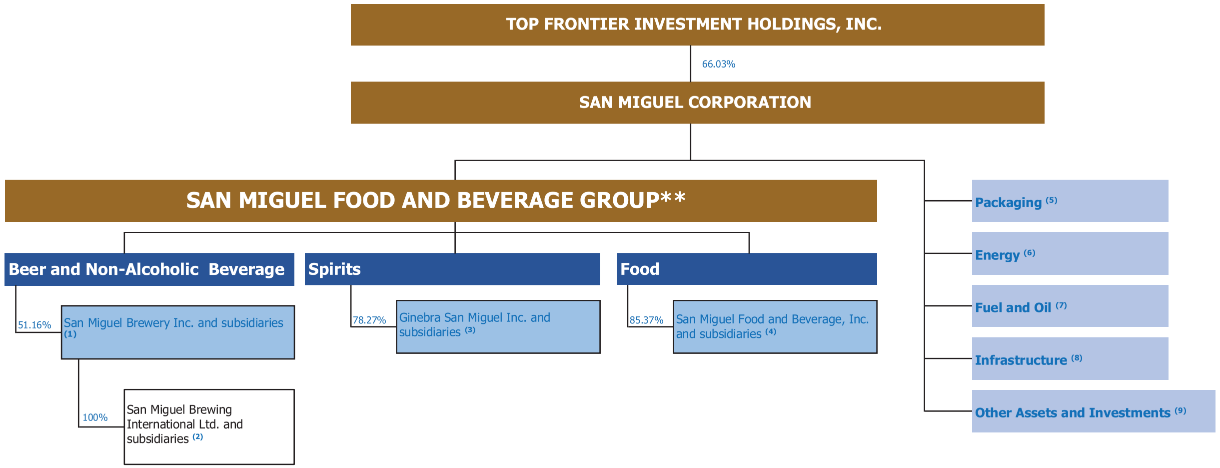
This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the combined financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-2, Group A, valid until August 10, 2020
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 6615145MD
Issued January 3, 2018 at Makati City

June 7, 2018
Makati City, Metro Manila

SAN MIGUEL FOOD AND BEVERAGE GROUP
GROUP STRUCTURE *
December 31, 2017



* The group structure includes the ultimate parent company, Top Frontier Investment Holdings, Inc. and the intermediate parent company, San Miguel Corporation with it's major subsidiaries, associates and joint ventures.

** San Miguel Food and Beverage Group is not an existing legal group as of December 31, 2017.

I. Food and Beverage Group

1. San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary.

2. San Miguel Brewing International Ltd. subsidiaries include Neptunia Corporation Limited and subsidiaries, including San Miguel Brewery Hong Kong Limited and subsidiaries, including San Miguel (Guangdong) Limited and subsidiary, Guangzhou San Miguel Brewery Co. Ltd., and San Miguel Shunde Holdings Limited and subsidiary, San Miguel (Guangdong) Brewery Co. Ltd., San Miguel (China) Investment Company, Limited, San Miguel (Baoding) Brewery Company Limited, San Miguel Holdings (Thailand) Limited and subsidiary, San Miguel Beer (Thailand) Limited, San Miguel Marketing (Thailand) Limited, Dragon Island Investments Limited, San Miguel (Vietnam) Limited, San Miguel Brewery Vietnam Company, Limited, and San Miguel Malaysia Pte. Ltd. and subsidiary, PT. Delta Djakarta Tbk. and subsidiary.

3. Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.

4. San Miguel Food and Beverage, Inc. subsidiaries include San Miguel Foods, Inc. and subsidiary, San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co., Ltd.

II. Co-Subsidiaries

5. Packaging includes San Miguel Yamamura Packaging Corporation and subsidiaries and its associate, Northern Cement Corporation, San Miguel Yamamura Asia Corporation, Mindanao Corrugated Fibreboard, Inc., and San Miguel Yamamura Packaging International Limited and subsidiaries.

6. Energy includes SMC Global Power Holdings Corp. and associate, Mariveles Power Generation Corporation and subsidiaries, including San Miguel Energy Corporation and subsidiaries, South Premiere Power Corp., Strategic Power Devt. Corp., SMC Consolidated Power Corporation, San Miguel Consolidated Power Corporation, San Miguel Electric Corp., and PowerOne Ventures Energy Inc. and its joint ventures, Angat Hydropower Corporation and KWPP Holdings Corporation.

7. Fuel and Oil includes SEA Refinery Corporation and subsidiary, Petron Corporation and subsidiaries, including Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., and Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia).

8. Infrastructure includes San Miguel Holdings Corp. and subsidiaries, including Vertex Tollways Devt. Inc., Manila North Harbour Port, Inc., Trans Aire Development Holdings Corp., Private Infra Dev Corporation, Universal LRT Corporation (BVI) Limited, Atlantic Aurum Investments BV and its subsidiaries, Cypress Tree Capital Investments, Inc. and subsidiaries, and Luzon Clean Water Development Corporation.

9. Other Assets and Investments include San Miguel Properties, Inc. and subsidiaries and associate, Bank of Commerce, SMC Shipping and Lighterage Corporation and subsidiaries, San Miguel Equity Investments Inc. and subsidiaries, including San Miguel Northern Cement Inc., and SMC Asia Car Distributors Corp.

SAN MIGUEL FOOD AND BEVERAGE GROUP

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 — 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 — 2016 Cycle: Deletion of short-term exemptions for first-time adopters*			
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Meaning of ‘vesting condition’	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 — 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 — 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures — Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*			
	Annual Improvements to PFRSs 2012 — 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 — 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)*			
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 — 2016 Cycle: Clarification of the scope of the standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 — 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*			
PFRS 16	Leases*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 — 2014 Cycle: Discount rate in a regional market sharing the same currency — e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 — 2016 Cycle: Measuring an associate or joint venture at fair value*			
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 — 2011 Cycle: Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 — 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 — 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets — Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 — 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretation IFRIC 14: Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration*			
IFRIC 23	Uncertainty over Income Tax Treatments*			
SIC 7	Introduction of the Euro			✓
SIC 10	Government Assistance — No Specific Relation to Operating Activities			✓
SIC 15	Operating Leases — Incentives	✓		
SIC 25	Income Taxes — Changes in the Tax Status of an Entity or its Shareholders			✓
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC 29	Service Concession Arrangements: Disclosures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC 31	Revenue — Barter Transactions Involving Advertising Services			✓
SIC 32	Intangible Assets —Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 — Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) — Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-03	PAS 40.27 — Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 — Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01	Framework.23 and PAS 1.23 — Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02	PAS 1R.16 — Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements — Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 — Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 — Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 — Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property — Acquisition of investment properties — asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 — Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✓		
PIC Q&A 2013-02	Conforming Changes to PIC Q&As — Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 — Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As — Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As — Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 — Accounting Treatment of Club Shares Held by an Entity	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts*			
PIC Q&A 2017-01	Conforming Changes to PIC Q&As — Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 — Capitalization of operating lease cost as part of construction costs of a building	✓		
PIC Q&A 2017-03	PAS 28 — Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 — Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 — Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 — Accounting for collector's items			✓
PIC Q&A 2017-07	PFRS 10 — Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 — Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC 15 — Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 — Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 — Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	✓		

Legend:

Adopted *— means a particular standard or interpretation is relevant to the operations of the Group (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.*

Not Adopted *— means a particular standard or interpretation is effective but the Group did not adopt it due to either of these two reasons: 1) The Group has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the Group decided otherwise.*

Not Applicable *— means the standard or interpretation is not relevant at all to the operations of the Group.*

* *These standards, amendments or interpretations will become effective subsequent to December 31, 2017. The Group will adopt these new and amended standards and interpretations on the respective effective dates.*

SAN MIGUEL FOOD AND BEVERAGE GROUP

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES DECEMBER 31, 2017

A	—	FINANCIAL ASSETS	
B	—	AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	—	AMOUNTS RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE COMBINATION OF FINANCIAL STATEMENTS	
D	—	INTANGIBLE ASSETS — OTHER ASSETS	
E	—	LONG-TERM DEBT	
F	—	INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
G	—	GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H	—	CAPITAL STOCK	NOT APPLICABLE**

* Balance of account is less than 5% of total assets of the Group.

** San Miguel Food and Beverage Group is not an existing legal group as of December 31, 2017.

SAN MIGUEL FOOD AND BEVERAGE GROUP

SCHEDULE A — FINANCIAL ASSETS
DECEMBER 31, 2017
(Amounts in Millions, Except Number of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2017	Income Received and Accrued
Cash and cash equivalents	—	₱35,540	Not applicable	₱639
Trade and other receivables — net	—	18,237	Not applicable	23
Derivative assets	—	61	Not applicable	8*
Available for sale financial assets**	—	53	₱ 53	2
Noncurrent receivables and deposits — net	—	574	Not applicable	7
		₱54,465	**₱ 53**	**₱679**

* This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.

** The number of shares or principal amount of bonds and notes are presented in ATTACHMENT TO SCHEDULE A — AVAILABLE-FOR-SALE FINANCIAL ASSETS.

See Notes 28, 29, 34 and 35 of the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

ATTACHMENT TO SCHEDULE A — AVAILABLE-FOR-SALE FINANCIAL ASSETS
DECEMBER 31, 2017
(Amounts in Millions, Except Number of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2017 (a)
San Miguel Pure Foods Company Inc. and Subsidiaries		
Club Filipino	2	₱ —
Makati Sports Club, Inc.	2	1
Philippine Long Distance Telephone Company	4,253	1
Valle Verde Country Club, Inc.	1	—
Capitol Hills Golf and Country Club, Inc.	1	—
Alabang Country Club, Inc.	1	4
Golf Club Bogor Raya	1	—
The Manila Southwoods Golf & Country Club, Inc.	1	1
Sta Elena Golf Club	1	3
Manila Electric Company	73,894	1
Tagaytay Highland Golf and Country Club	1	1
Royal Tagaytay Country Club	1	—
The Orchard Golf and Country Club	1	—
San Miguel Brewery Inc. and Subsidiaries		
HSBC Holdings	20,400	10
Hongkong Arts Centre Ltd.	1	—
The Pacific Club Kowloon	1	7
The American Club Hong Kong	1	9
Hong Kong Football Club	1	6
Discovery Bay Golf Club	1	9
Total Available-for-Sale Financial Assets		**₱ 53**

See Notes 12, 34 and 35 of the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

SCHEDULE C — AMOUNTS RECEIVABLE/PAYABLE FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE COMBINATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2017
(Amounts in Millions)

RECEIVABLE FROM RELATED PARTIES

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Pure Foods Company Inc. and Subsidiaries	₱29	₱105	₱(110)	₱—	₱24	₱24	₱—	₱24
San Miguel Brewery Inc. and Subsidiaries	16	33	(32)	—	17	17	—	17
Ginebra San Miguel Inc. and Subsidiaries	4	7	(6)	—	5	5	—	5
	₱49	**₱145**	**₱(148)**	**₱—**	**₱46**	**₱46**	**₱—**	**₱46**

PAYABLE TO RELATED PARTIES

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Pure Foods Company Inc. and Subsidiaries	₱14	₱ 16	₱ (14)	₱—	₱16	₱16	₱—	₱16
San Miguel Brewery Inc. and Subsidiaries	24	107	(112)	—	19	19	—	19
Ginebra San Miguel Inc. and Subsidiaries	11	11	(11)	—	11	11	—	11
	₱49	₱134	₱(137)	₱—	₱46	₱46	₱—	₱46

SAN MIGUEL FOOD AND BEVERAGE GROUP

SCHEDULE D — INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2017
(Amounts in Millions)

Part A — Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions	Disposal / Reclassed to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustments	Ending Balance
Goodwill	**₱ 304**	**₱—**	**₱ —**	**₱ —**	**₱ —**	**₱ 304**
Other Intangible Assets						
Cost						
Trademarks and brand names	₱37,543	₱27	₱ —	₱ —	₱ 6	₱37,576
Licenses	1,829	—	—	—	184	2,013
Formulas and recipes	65	—	—	—	—	65
Land use rights	1,158	—	650	—	45	1,853
Computer software and other intangible assets	1,298	39	(5)	—	1	1,333
	41,893	66	645	—	236	42,840
Accumulated Amortization and Impairment Losses						
Trademarks and brand names	228	—	—	—	—	228
Land use rights	420	—	184	40	18	662
Computer software and other intangible assets	1,052	—	(6)	116	2	1,164
	1,700	—	178	156	20	2,054
Net Book Value	**₱40,193**	**₱66**	**₱467**	**₱(156)**	**₱216**	**₱40,786**

See Notes 4 and 15 of the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

SCHEDULE D — INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2017
(Amounts in Millions)

Part B — Other Noncurrent Assets

Description	Beginning Balance	Additions	Charged to Cost and Expenses	Reclassifications/ (Disposal)	Currency Translation Adjustment	Ending Balance
Deferred containers — net of accumulated amortization	₱10,339	₱4,790	₱(2,285)	₱(748)	₱11	₱12,107
Noncurrent receivables and deposits — net	147	518	(42)	(49)	—	574
Others	973	511	(256)	(127)	—	1,101
	₱11,459	**₱5,819**	**₱(2,583)**	**₱(924)**	**₱11**	**₱13,782**

See Notes 4, 16, 30, 32, 34 and 35 of the Combined Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE GROUP

SCHEDULE E — LONG-TERM DEBT
DECEMBER 31, 2017
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
PESO-DENOMINATED													
SM Brewery Inc.													
Fixed	Philippine Depository & Trust Corp.	₱10,000	₱ —	₱—	₱ —	₱10,000	₱ (22)	₱ 9,978	₱ 9,978	5.930%	Bullet	Semi-annual	April 2019
Fixed	Philippine Depository & Trust Corp.	7,000	—	—	—	7,000	(36)	6,964	6,964	6.60%	Bullet	Semi-annual	April 2022
		17,000	—	—	—	17,000	(58)	16,942	16,942				
SM Brewery Inc.													
Fixed	Philippine Depository & Trust Corp.	12,462	—	—	—	12,462	(64)	12,398	12,398	5.50%	Bullet	Semi-annual	April 2021
Fixed	Philippine Depository & Trust Corp.	2,538	—	—	—	2,538	(17)	2,521	2,521	6.00%	Bullet	Semi-annual	April 2024
		15,000	—	—	—	15,000	(81)	14,919	14,919				
SM Brewery Inc.													
Fixed	Philippine Depository & Trust Corp.	2,810	—	—	—	2,810	(6)	2,804	2,804	10.50%	Bullet	Semi-annual	April 2019
East Pacific Star Bottlers Phils Inc.													
Floating . . .	Development Bank of the Philippines	114	114	—	114	—	—	—	114	PDST-R2 + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	September 2018
Total Long-term Debt		**₱34,924**	**₱114**	**₱—**	**₱114**	**₱34,810**	**₱(145)**	**₱34,665**	**₱34,779**				

See Notes 19, 27, 34 and 35 of the Combined Financial Statements.

COMPANY

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Philippines

SELLING SHAREHOLDER

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JOINT BOOKRUNNERS

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