CR05483-2018

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended
   Jun 30, 2018
2. SEC Identification Number
   11840
3. BIR Tax Identification No.
   000-100-341-000
4. Exact name of issuer as specified in its charter
   SAN MIGUEL FOOD AND BEVERAGE, INC.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   23F, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, Metro Manila
   Postal Code
   1605
8. Issuer's telephone number, including area code
   (632) 317-5000
9. Former name or former address, and former fiscal year, if changed since last report
   N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (FB)	5,909,220,090
PREFERRED (FBP2)	15,000,000

11. Are any or all of registrant's securities listed on a Stock Exchange?
    ◉ Yes ○ No
    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippine Stock Exchange, Common and Preferred Shares
12. Indicate by check mark whether the registrant:

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

◉ Yes ○ No

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

◉ Yes ○ No

San Miguel Food & Beverage

San Miguel Food and Beverage, Inc.
FB

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

For the period ended	Jun 30, 2018
Currency (indicate units, if applicable)	PhP (in millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2018	Dec 31, 2017
Current Assets	90,826	90,429
Total Assets	212,040	205,103
Current Liabilities	64,954	53,426
Total Liabilities	89,103	90,482
Retained Earnings/(Deficit)	55,396	50,328
Stockholders' Equity	122,937	114,621
Stockholders' Equity - Parent	83,541	78,682
Book Value per Share	11.6	10.78

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	71,444	61,969	137,441	119,130
Gross Expense	59,476	51,946	114,552	100,075
Non-Operating Income	261	143	492	288
Non-Operating Expense	671	642	1,517	1,330
Income/(Loss) Before Tax	11,558	9,524	21,864	18,013
Income Tax Expense	3,480	2,807	6,494	5,208
Net Income/(Loss) After Tax	8,078	6,717	15,370	12,805

Net Income Attributable to Parent Equity Holder	4,908	4,178	9,260	7,929
Earnings/(Loss) Per Share (Basic)	0.79	0.67	1.5	1.27
Earnings/(Loss) Per Share (Diluted)	0.79	0.67	1.5	1.27

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	3.01	2.57
Earnings/(Loss) Per Share (Diluted)	3.01	2.57

Other Relevant Information

Please see attached SEC Form 17-Q for the period ended June 30, 2018, filed with the Securities and Exchange Commission on August 14, 2018.

Filed on behalf by:

Name	Alexandra Trillana
Designation	Corporate Secretary and Compliance Officer

108142018004012

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

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Company Information

SEC Registration No.	0000011840
Company Name	SAN MIGUEL FOOD AND BEVERAGE, INC.
Industry Classification	Mfg. Of Food Products & Beverages
Company Type	Stock Corporation

Document Information

Document ID	108142018004012
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

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COVER SHEET

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S. E. C. Registration Number

S A N M I G U E L F O O D

A N D B E V E R A G E , I N C .

(Company's Full Name)

23 r d F l r. J M T B l d g. A D B

A v e. P a s i g C i t y

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 317-5450

Company Telephone Number

SEC Form

Month	Day	FORM TYPE	Month	Day
		1 7 - Q		
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

- - - - - - - - - - - - - - - - - -

STAMPS

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SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2018**

2. SEC Identification Number **11840**

3. BIR Tax Identification No. **000-100-341-000**

4. Exact name of issuer as specified in its charter **SAN MIGUEL FOOD AND BEVERAGE, INC.**

5. **Philippines**
Province, Country or other jurisdiction
Of incorporation or organization

6. ______ SEC Use Only
Industry Classification Code

7. **23rd Floor, The JMT Corporate Condominium**
ADB Avenue, Ortigas Center, Pasig City **1605**
Address of issuer's principal office Postal code

8. **(02) 317-5000**
Issuer's telephone number, including area code

9. **SAN MIGUEL PURE FOODS COMPANY INC.**
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Section 4 and 8 of the RSA

	Number of Shares Issued and Outstanding and Total Liabilities (As at June 30, 2018)
Common Shares - P1.00 par value	**5,909,220,090**
Preferred Shares - P10.00 par value	**15,000,000**
Total Liabilities (in '000,000)	**P89,103**

11. Are any or all these securities listed on the Philippine Stock Exchange?

Yes (√) No ( )

12. Indicate by check mark whether the registrant:

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

Yes (√) No ( )

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

Yes (√) No ( )

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited condensed consolidated interim financial statements of San Miguel Food and Beverage, Inc. (SMFB or "the Company", formerly San Miguel Pure Foods Company Inc. or SMPFC) and its subsidiaries (collectively, the "Group") as at and for the period ended June 30, 2018 (with comparative figures as at December 31, 2017 and for the period ended June 30, 2017) and Selected Notes to the Condensed Consolidated Interim Financial Statements are hereto attached as Annex "A". Notes 16 and 17 of the Selected Notes to the Condensed Consolidated Interim Financial Statements contain the required information on the financial risk exposures and financial instruments of the Group.

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

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

PART II - OTHER INFORMATION

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

SIGNATURES

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

Issuer **SAN MIGUEL FOOD AND BEVERAGE, INC.** ***(formerly San Miguel Pure Foods Company Inc.)***

Signature and Title **ILDEFONSO B. ALINDOGAN**
Vice President, Chief Finance Officer and Strategy Officer

Date August 14, 2018

SEC Number 11840
File Number

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

(Company's Full Name)

23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City

(Company's Address)

317-5000

(Telephone Number)

(Year Ending)
(month & day)

Quarterly Consolidated
Financial Statements

Form Type

Amendment Designation (If applicable)

June 30, 2018

Period Ended Date

(Secondary License Type and File Number)

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
As at June 30, 2018 and December 31, 2017 and
For the Six Months Ended June 30, 2018 and 2017

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Note	**June 30 2018 Unaudited**	December 31 2017 As Restated (Note 5)
ASSETS			
Current Assets			
Cash and cash equivalents	*16, 17*	**P35,448**	P35,540
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
		P212,040	P205,103
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*16, 17*	**P12,625**	P13,939
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

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

	Note	June 30 2018 Unaudited	December 31 2017 As Restated (Note 5)
Equity			
Equity Attributable to Equity Holders of the Parent Company	*5, 13*		
Capital stock		**P6,251**	P6,251
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
		P212,040	P205,103

See Accompanying Management Discussion and Analysis and Selected Notes to the Condensed Consolidated Interim Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
(In Millions, Except Per Share Data)

		For the Six Months Ended June 30		For the Quarter Ended June 30	
	Note	**2018 Unaudited**	2017 Unaudited and As Restated (Note 5)	**2018 Unaudited**	2017 Unaudited and As Restated (Note 5)
SALES	*6*	**P137,441**	P119,130	**P71,444**	P61,969
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		**P15,370**	P12,805	**P8,078**	P6,717
Attributable to:					
Equity holders of the Parent Company		**P9,260**	P7,929	**P4,908**	P4,178
Non-controlling interests		**6,110**	4,876	**3,170**	2,539
		P15,370	P12,805	**P8,078**	P6,717
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*15*	**P1.50**	P1.27	**P0.79**	P0.67

See Accompanying Management Discussion and Analysis and Selected Notes to the Condensed Consolidated Interim Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	For the Six Months Ended June 30		For the Quarter Ended June 30	
	2018 Unaudited	2017 Unaudited and As Restated (Note 5)	**2018 Unaudited**	2017 Unaudited and As Restated (Note 5)
NET INCOME	**P15,370**	P12,805	**P8,078**	P6,717
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	**P16,465**	P13,384	**P8,095**	P6,934
Attributable to:				
Equity holders of the Parent Company	**P9,773**	P8,235	**P4,887**	P4,291
Non-controlling interests	**6,692**	5,149	**3,208**	2,643
	P16,465	P13,384	**P8,095**	P6,934

See Accompanying Management Discussion and Analysis and Selected Notes to the Condensed Consolidated Interim Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

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
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves										
		Capital Stock		Additional Paid-in	Equity Adjustments from Common	Reserve for Retirement	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Control Transactions	Reserve	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As at January 1, 2018 (Audited)		P1,709	P300	P35,235	P -	(P547)	P5	(P140)	P401	P2,999	P21,125	(P182)	(P15,000)	P45,905	P2,243	P48,148
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 (Unaudited)		P5,951	P300	P366,620	(P328,273)	(P1,902)	P7	P701	(P77)	P17,377	P38,019	(P182)	(P15,000)	P83,541	P39,396	P122,937

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

	Note	Capital Stock Common	Capital Stock Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Other Equity Reserves: Reserve for Retirement Plan	Other Equity Reserves: Fair Value Reserve	Other Equity Reserves: Translation Reserve	Other Equity Reserves: Other Equity Reserve	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Treasury Stock Common	Treasury Stock Preferred	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company														
As at January 1, 2017 (Audited)		P1,709	P300	P35,235	P -	(P386)	P5	(P142)	P401	P2,999	P16,412	(P182)	(P15,000)	P41,351	P1,836	P43,187
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 (Unaudited)		P5,951	P300	P367,342	(P328,273)	(P1,768)	(P1)	P172	(P77)	P5,824	P38,889	(P182)	(P15,000)	P73,177	P32,557	P105,734

See Accompanying Management Discussion and Analysis and Selected Notes to the Condensed Consolidated Interim Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

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

(In Millions)

	Note	**2018 Unaudited**	2017 Unaudited and As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P21,864**	P18,013
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)

Forward

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

	Note	2018 Unaudited	2017 Unaudited and As Restated
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		**P80,410**	P99,730
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		**P35,448**	P32,167

See Accompanying Management Discussion and Analysis and Selected Notes to the Condensed Consolidated Interim Financial Statements.

CERTIFIED CORRECT:

Ildefonso B. Alindogan
Vice President, Chief Finance Officer
and Strategy Officer

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 P10.00 per share to P1.00 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 P9,540 divided into 9,540,000,000 common shares with a par value of P1.00 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 P336,349. 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 P336,349, 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	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			
Ginerbra 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 P144 and increase in retained earnings and non-controlling interests as at January 1, 2018 by P51 and P49, 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	P35,540	P35,540
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 Programmes*, 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.

- o 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.

<u>Financial Assets and Financial Liabilities</u>
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

<u>*Financial Assets*</u>
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 cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the 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.

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:

	Consolidated Statement of Financial Position 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 Financial Position of SMFB, As Restated
		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)	
ASSETS								
Current Assets								
Cash and cash equivalents	P7,044	P28,297	P199	P -	P -	P -	P -	P35,540
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
	P81,874	P109,283	P13,317	P336,349	(P335,657)	(P63)	P -	P205,103

	Consolidated Statement of Financial Position 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 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	P8,407	P -	P5,532	P -	P -	P -	P -	P13,939
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

	Consolidated Statement of Financial Position 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 Financial Position of SMFB, As Restated
		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)	
Equity								
Equity attributable to equity holders of the Parent Company								
Capital stock	P2,009	P15,410	P399	P4,242	(P15,809)	P -	P -	P6,251
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
	P81,874	P109,283	P13,317	P336,349	(P335,657)	(P63)	P -	P205,103

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:

	Consolidated Statement of Income 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 Income of SMFB, As Restated
		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)	
Sales	P55,947	P53,060	P10,124	P -	(P1)	P -	P119,130
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	P3,140	P9,396	P265	P -	P4	P -	P12,805
Attributable to:							
Equity holders of the Parent Company	P3,043	P9,194	P265	(P4,575)	P2	P -	P7,929
Non-controlling interests	97	202	-	4,575	2	-	4,876
	P3,140	P9,396	P265	P -	P4	P -	P12,805

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	P3,140	P9,396	P265	P -	P4	P12,805
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	P3,140	P9,933	P307	P -	P4	P13,384
Attributable to:						
Equity holders of the Parent Company	P3,043	P9,735	P307	(P4,852)	P2	P8,235
Non-controlling interests	97	198	-	4,852	2	5,149
	P3,140	P9,933	P307	P -	P4	P13,384

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	P29,286	P27,696	P4,988	P -	(P1)	P -	P61,969
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	P1,675	P4,905	P135	P -	P2	P -	P6,717
Attributable to:							
Equity holders of the Parent Company	P1,617	P4,824	P135	(P2,399)	P1	P -	P4,178
Non-controlling interests	58	81	-	2,399	1	-	2,539
	P1,675	P4,905	P135	P -	P2	P -	P6,717

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	P1,675	P4,905	P135	P -	P2	P6,717
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	P1,675	P5,111	P146	P -	P2	P6,934
Attributable to:						
Equity holders of the Parent Company	P1,617	P5,027	P146	(P2,500)	P1	P4,291
Non-controlling interests	58	84	-	P2,500	1	2,643
	P1,675	P5,111	P146	P -	P2	P6,934

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:

		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 Reported	Consolidated Statement of Cash flows of SMB	Consolidated Statement of Cash flows of GSMI	Reclassification (d)	Consolidated Statement of Cash flows of SMFB, As Restated
Net cash flows provided by operating activities	P9,102	P11,909	P546	P32	P21,589
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	P8,321	P23,650	P196	P -	P32,167

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 P1.00 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%	P325,218
GSMI*	67.99%	11,131
		336,349
Par value of the shares issued by SMFB		4,242
Additional paid-in capital of SMFB		P332,107

* *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 P722 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*	P15,410	P399	P15,809
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
	P -	P -	P -

** Capital stock consists of common shares of SMB amounting to P15,410 and common shares and preferred shares of GSMI amounting to P346 and P53, respectively.*

*** Treasury shares consists of common shares of SMB amounting to P1,029 and common shares and preferred shares of GSMI amounting to P1,947 and P723, 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	P325,218	P11,131	P336,349
Net assets acquired	7,859	217	8,076
Equity adjustments from common control transactions	P317,359	P10,914	P328,273

Adjustments to non-controlling interests are composed of the following:

	SMB	GSMI	Total
Share of non-controlling interests in equity	P28,083	P1,339	P29,422
Cost of preferred shares	-	1,000	1,000
Total	P28,083	P2,339	P30,422

The holders of preferred shares are entitled to participate and receive annual dividends of P1.50 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 P1.50 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 P294.

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	(P46)
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	(P17)
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	P9,194	P265	P9,459	P4,824	P135	P4,959
Non-controlling interests ownership	48.84%	32.01%		48.84%	32.01%	
Share of non-controlling interests in net income	P4,490	P85	P4,575	P2,356	P43	P2,399

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	(P1)	(P1)
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	P537	P42	P579	P206	P11	P217
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	P264	P13	P277	P98	P3	P101

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	**P34,522**	**P2,507**	P31,358	P2,338
Net income attributable to non-controlling interests	**P5,884**	**P162**	P10,391	P193
Other comprehensive income attributable to non-controlling interests	**P577**	**P5**	P246	(P7)
Dividends paid to non-controlling interests	**P3,344**	**P -**	P5,639	P -

The following are the financial information of SMB and GSMI:

	June 30, 2018		December 31, 2017	
	SMB	**GSMI**	SMB	GSMI
Current assets	**P42,273**	**P6,989**	P38,953	P6,658
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	**P67,261**	**P5,536**	P60,784	P5,014
Sales	**P62,510**	**P12,046**	P113,255	P20,892
Net income	**P11,799**	**P506**	P20,711	P602
Other comprehensive income (loss)	**1,065**	**16**	613	(19)
Total comprehensive income	**P12,864**	**P522**	P21,324	P583
Cash flows provided by operating activities	**P12,868**	**P1,647**	P26,601	P2,502
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	**P2,559**	**P113**	P6,282	(P578)

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 (unaudited) and June 30, 2017 (unaudited and 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	**P62,509**	P53,060	**P12,046**	P10,123	**P62,886**	P55,947	**P137,441**	P119,130	**P -**	P -	**P137,441**	P119,130
Inter-segment sales	**1**	-	**-**	1	**-**	-	**1**	1	**(1)**	(1)	**-**	-
Total sales	**P62,510**	P53,060	**P12,046**	P10,124	**P62,886**	P55,947	**P137,442**	119,131	**(P1)**	(P1)	**P137,441**	P119,130
Results												
Segment results*	**P17,311**	P14,040	**P862**	P551	**P4,712**	P4,460	**P22,885**	P 19,051	**P4**	P4	**P22,889**	P19,055

**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 (unaudited) and June 30, 2017 (unaudited and 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	**P62,509**	P53,060	**P12,017**	P10,097	**P62,852**	P55,925	**P137,378**	P119,082
Sales recognized over time	**-**	-	**29**	26	**34**	22	**63**	48
Total external sales	**P62,509**	P53,060	**P12,046**	P10,123	**P62,886**	P55,947	**P137,441**	P119,130

Other information on the Group's operating segments as at June 30, 2018 (unaudited) 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	**P80,766**	P74,321	**P12,287**	P12,169	**P77,426**	P77,107	**P170,479**	P163,597	**(P23)**	(P63)	**P170,456**	P163,534
Segment liabilities	**P9,474**	P9,559	**P3,230**	P2,530	**P22,758**	P23,330	**P35,462**	P35,419	**(P10)**	(P46)	**P35,452**	P35,373
Capital expenditures	**P1,241**	P1,747	**P121**	P217	**P3,888**	P10,890	**P5,250**	P12,854	**P -**	P -	**P5,250**	P12,854

7. Inventories

Inventories consist of:

	June 30 2018 Unaudited	December 31 2017 As Restated (Note 5)
At net realizable value:		
Finished goods and goods in process	**P8,517**	P7,005
Materials and supplies	**20,431**	19,833
Containers	**1,984**	1,520
	P30,932	P28,358

The cost of inventories are as follows:

	June 30 2018 Unaudited	December 31 2017 As Restated (Note 5)
Finished goods and goods in process	**P8,707**	P7,195
Materials and supplies	**20,932**	20,339
Containers	**2,392**	1,932
	P32,031	P29,466

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 Unaudited	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**P1,108**	P844
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	**P1,099**	P1,108

The cost of inventories used recognized under "Cost of sales" account in the condensed consolidated interim statements of income amounted to P53,456 and P46,465 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 P736 and P442 as at June 30, 2018 and December 31, 2017, respectively, with corresponding costs at point of harvest amounting to P635 and P405, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P101 and P72 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	P11,752	P20,269	P59,100	P3,395	P748	P7,980	P103,244
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

	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	P -	P2,410	P8,560	P63	P -	P -	P 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)	P11,977	P9,002	P11,473	P625	P407	P17,641	P51,125
June 30, 2018	**P12,012**	**P9,069**	**P11,852**	**P688**	**P401**	**P21,262**	**P55,284**

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	P11,752	P20,269	P59,100	P3,395	P748	P7,980	P103,244
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

Forward

	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	P -	P2,410	P8,560	P63	P -	P -	P11,033
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	P11,268	P9,271	P11,714	P560	P393	P12,744	P45,950

Depreciation and amortization recognized in the condensed consolidated interim statements of income amounted to P1,448 and P1,360 for the six months ended June 30, 2018 and 2017, respectively. These amounts include amortization of capitalized interest amounting to P8 and P7 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 P534.

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	P2,266	P725	P2,991
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)	P1,711	P389	P2,100
June 30, 2018	**P1,716**	**P404**	**P2,120**

June 30, 2017

	Land and Land Improvements	Buildings and Improvements	Total
Cost			
January 1, 2017	P2,266	P725	P2,991
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	P2,071	P402	P2,473

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 P4,367 and P3,903 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 Unaudited	December 31 2017 As Restated (Note 5)
Goodwill	**P996**	P996
Other intangible assets	**41,021**	40,786
	P42,017	P41,782

Goodwill acquired through business combinations which has been allocated to individual cash-generating units for impairment testing amounted to P304 for PTSMPFI, GFDCC and EPSBPI as at June 30, 2018 and December 31, 2017.

Goodwill relating to GSMI amounting to P692 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 Unaudited	December 31 2017 As Restated (Note 5)
Trademarks and brand names	**P37,460**	P37,348
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
	P41,021	P40,786

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	P37,543	P1,829	P65	P39,437
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)	P37,348	P2,013	P65	P39,426
June 30, 2018	**P37,460**	**P2,119**	**P65**	**P39,644**

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	P1,158	P1,298	P2,456
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)	P1,191	P169	P1,360
June 30, 2018	**P1,242**	**P135**	**P1,377**

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	**P177**	**P3,845**	P177	P3,841
Spirits	**819**	**-**	819	-
Beer and NAB	**-**	**35,799**	-	35,585
Total	**P996**	**P39,644**	P996	P39,426

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 Unaudited	December 31 2017 As Restated (Note 5)
Deferred containers - net	**P14,070**	P12,107
Noncurrent receivables and deposits - net	**566**	574
Others	**1,308**	1,101
	P15,944	P13,782

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 Unaudited	December 31 2017 As Restated (Note 5)
Gross Carrying Amount		
Balance at beginning of period	**P28,157**	P24,306
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	P12,107

"Noncurrent receivables and deposits" are net of allowance for impairment losses amounting to P164 as at June 30, 2018 and December 31, 2017.

"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 P64 as at June 30, 2018 and December 31, 2017. Accumulated impairment losses on idle assets amounted to P480 and P457 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 P62 and P61 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 Unaudited	December 31 2017 As Restated (Note 5)
Bonds:		
Series C bonds, fixed interest rate of 10.50% maturing in 2019	**P2,806**	P2,804
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
	P21,896	P34,665

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) P2,810 pertaining to the aggregate principal amount of the Series C bonds which remain outstanding of the P38,800 bonds (P38,800 Bonds) which were issued on April 3, 2009 (P38,800 Bonds Issue Date); (b) P17,000 pertaining to the aggregate principal amount of Series E and F bonds which remain outstanding of the P20,000 bonds (P20,000 Bonds) which were issued on April 2, 2012 (P20,000 Bonds Issue Date); and (c) P15,000 (P15,000 Bonds) which were issued on April 2, 2014 (P15,000 Bonds Issue Date).

The P38,800 Bonds, which originally consisted of the Series A bonds (with a term of three years from the P38,800 Bonds Issue Date), the Series B bonds (with a term of five years and one day from the P38,800 Bonds Issue Date) and the Series C bonds (with a term of ten years from the P38,800 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 P38,800 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 P20,000 Bonds were used to pay such maturity. The Series B bonds with an aggregate principal amount of P22,400 matured on April 4, 2014 and were accordingly redeemed by SMB on April 4, 2014. The proceeds of SMB's P15,000 Bonds were used to partially pay such maturity. Only the Series C bonds remain outstanding of the P38,800 Bonds. Unamortized debt issue costs related to the Series C bonds amounted to P4 and P6 as at June 30, 2018 and December 31, 2017, respectively.

The P20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the P20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the P20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the P20,000 Bonds Issue Date). The P20,000 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 P3,000 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 P46 and P58 as at June 30, 2018 and December 31, 2017, respectively.

The P15,000 Bonds consist of the Series G bonds (with a term of seven years from the P15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the P15,000 Bonds Issue Date). The P15,000 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 P15,000 Bonds amounted to P71 and P81 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 P20,000 Bonds are paid semi-annually every April 2 and October 2 of each year (each, a P20,000 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 P20,000 Bonds on the day after the 10th P20,000 Bonds Interest Payment Date for the Series E bonds, and the 14th P20,000 Bonds Interest Payment Date for the Series F Bonds. Interest on the P15,000 Bonds are paid every April 2 and October 2 of each year (each, a P15,000 Bonds Interest Payment Date). SMB may also (but shall likewise not be obligated to) redeem all (and not a part only) of the outstanding P15,000 Bonds on the 11th P15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th P15,000 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 P35,403 and P36,281 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 P800. 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 P57 in 2018 as partial settlement of the loan principal. As at June 30, 2018, the outstanding balance of the term note amounted to P57.

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 Unaudited	June 30 2017 Unaudited
Bonds	**P1,094**	P1,140
Term note	**2**	3
	P1,096	P1,143

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 Unaudited	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**P145**	P193
Amortization	**(24)**	(48)
Balance at end of period	**P121**	P145

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2018	P57	P -	P57
2019	12,810	17	12,793
2021	12,462	55	12,407
2022	7,000	33	6,967
2024	2,538	16	2,522
	P34,867	**P121**	**P34,746**

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 Unaudited	December 31 2017 As Restated (Note 5)
Balance at beginning of period	**P34,779**	P37,846
Payment of borrowings	**(57)**	(3,115)
Amortization of debt issue costs	**24**	48
Balance at end of period	**P34,746**	P34,779

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 P1.00 par value per common share and P10.00 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 P1,000.00 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 P1,000.00 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 P10.00 per share to cover the Parent Company's preferred shares offering at an offer price of P1,000.00 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 P1,000.00 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 P10.00 per share to cover the FBP2 Shares Offering at an offer price of P1,000.00 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 P1,000.00 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 P1,000.00 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 P10.00 per share were issued and listed with the PSE.

The proceeds from the issuance of FBP2 Shares, net of transaction costs, amounted to P14,885.

As at June 30, 2018, the Parent Company has a total of 132 and 110 common and preferred stockholders, respectively.

<u>Treasury Shares</u>
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 P4,999 and P6,554 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 P1,535 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	**P2.00**
	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	P1.50
	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 P0.40 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 P14.14225 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 (Unaudited), June 30, 2017 (Unaudited and 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 Parent Company	**June 30, 2018**	**P33**	**P866**	**P61**	**P338**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2017	89	1,998	112	557		
	June 30, 2017	10	705	7	183		
Entities under Common Control	**June 30, 2018**	**328**	**12,049**	**616**	**4,518**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2017	664	19,952	594	4,571		
	June 30, 2017	195	4,758	244	1,508		
Joint Venture	**June 30, 2018**	**-**	**-**	**607**	**65**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2017	-	-	688	94		
	June 30, 2017	-	-	631	-		
Retirement Plan	**June 30, 2018**	**-**	**-**	**-**	**70**	On demand; non-interest bearing	Unsecured
	December 31, 2017	-	-	-	5		
	June 30, 2017	-	-	-	62		
Associate of the Intermediate Parent Company	**June 30, 2018**	**-**	**-**	**-**	**3,872**	3 months or less; interest bearing	Unsecured
	December 31, 2017	-	-	-	4,530		
	June 30, 2017	-	-	-	3,176		
Shareholders in Subsidiaries and its Affiliates	**June 30, 2018**	**83**	**263**	**5**	**34**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2017	174	493	4	31		
	June 30, 2017	-	-	4	-		
Total	**June 30, 2018**	**P444**	**P13,178**	**P1,289**	**P8,897**		
Total	December 31, 2017	P927	P22,443	P1,398	P9,788		
Total	June 30, 2017	P205	P5,463	P886	P4,929		

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 P11 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	**P9,260**	P7,929	**P4,908**	P4,178
Less dividends on preferred shares for the period	**424**	424	**212**	212
Net income attributable to common shares shareholders of the Parent Company (a)	**P8,836**	P7,505	**P4,696**	P3,966
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)	**P1.50**	P1.27	**P0.79**	P0.67

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 P1 and P2 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 (Unaudited)	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Floating Rate					
Philippine peso-denominated	**P57**	**P -**	**P -**	**P -**	**P57**
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%**	**-**
	P12,867	**P12,462**	**P7,000**	**P2,538**	**P34,867**

December 31, 2017 (As Restated)	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	P114	P -	P -	P -	P114
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%	-
	P114	P12,810	P19,462	P2,538	P34,924

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**	**P9,490**	US$174	P8,699
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**	**P8,403**	US$155	P7,775

The Group reported net gain (losses) on foreign exchange amounting to (P41) and P29 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):

	P1 Decrease in the US Dollar Exchange Rate		**P1 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	**(P2)**	**(P177)**	**P2**	**P177**
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)**
	P7	**(P159)**	**(P7)**	**P159**

December 31, 2017	P1 Decrease in the US Dollar Exchange Rate: Effect on Income before Income Tax	P1 Decrease in the US Dollar Exchange Rate: Effect on Equity	P1 Increase in the US Dollar Exchange Rate: Effect on Income before Income Tax	P1 Increase in the US Dollar Exchange Rate: Effect on Equity
Cash and cash equivalents	(P3)	(P173)	P3	P173
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)
	P7	(P158)	(P7)	P158

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 (Unaudited)	**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	**P35,448**	**P35,448**	**P35,448**	**P -**	**P -**	**P -**
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	P35,540	P35,540	P35,540	P -	P -	P -
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 Unaudited	December 31 2017 As Restated (Note 5)
Cash and cash equivalents (excluding cash on hand)		**P35,321**	P35,403
Trade and other receivables - net		**15,508**	18,237
Derivative assets		**9**	61
Noncurrent receivables and deposits - net	*11*	**566**	574
		P51,404	P54,275

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 Unaudited		December 31, 2017 As Restated	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P35,448**	**P35,448**	P35,540	P35,540
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 P212, P260 and P57 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 P270, P55, P262 and P40 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	**P -**	**P9**	**P9**	P -	P61	P61
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 P926 for the period December 1, 2005 to July 31, 2007, and P782 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 P828. 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 P730, 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 P699. 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 P582 in Case No. 8953, and P133 in Case No. 8954, or in the total amount of P715, 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 P26, 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.

- 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 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 P270 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 P110, where IBI requested for the cancellation 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 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.

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 P860. BPI paid a down payment of P100 under the agreement.

Annex "B"

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited condensed consolidated interim financial statements of San Miguel Food and Beverage, Inc. (SMFB or "the Company", formerly San Miguel Pure Foods Company Inc. or SMPFC) and its subsidiaries (collectively, referred to as the "Group") as at and for the period ended June 30, 2018 (with comparative figures as at December 31, 2017 and for the period ended June 30, 2017). All necessary adjustments to present fairly the unaudited condensed consolidated interim financial position, financial performance and cash flows of the Group as at June 30, 2018, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with the Philippine Financial Reporting Standards have been omitted.

Operating Segments

The Group has three primary operating segments, namely, the Beer and Non-alcoholic Beverages (NAB) segment, the Spirits segment and the Food segment.

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.

I. MAJOR DEVELOPMENTS

Reporting Entity

As discussed in the Company's Audited Consolidated Financial Statements as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, the Board of Directors (BOD) of San Miguel Corporation (SMC, the intermediate Parent Company of SMPFC) approved on November 3, 2017 the internal restructuring of the San Miguel Group of Companies to consolidate its food and beverage businesses under SMPFC. To implement such consolidation, SMC will transfer all of its 7,859,319,270 common shares in San Miguel Brewery Inc. (SMB) and all of its 216,972,000 common shares in Ginebra San Miguel, Inc. (GSMI) (collectively, the "Exchange Shares") to SMPFC. In consideration for the Exchange Shares, SMPFC 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 SMPFC on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of SMPFC 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 SMPFC common shares from P10.00 per share to P1.00 per share, and deny pre-emptive rights for issuances or dispositions of all common shares (collectively, the "First Amendments"); (b) upon approval by the Securities and Exchange Commission (SEC) of the First Amendments, the increase in SMPFC's authorized capital stock by P9,540,000,000.00 divided into 9,540,000,000 common shares with a par value of P1.00 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 the issuance by SMPFC 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 Philippine Stock Exchange(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 the Company, in its special stockholders meeting, approved the foregoing corporate actions.

On March 14, 2018, the following amendments to the By-laws of the Company were approved by the BOD of SMPFC: (i) the change in corporate name of the Company to “San Miguel Food and Beverage, Inc.” in the Title of the By-laws; (ii) the change in Official Seal of the Company to reflect the said new corporate name in Article XI of the By-laws; and (iii) the disqualification for director in the Company 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 the Company, 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 the Company.

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 P336,349 million. 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 the Company 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 the Company.

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 the Company 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 P336,349 million, the investment value of SMFB in SMB and GSMI.

As the issuance of the New Shares resulted in SMFB’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 SMFB’s common and preferred shares (collectively, the “FB Shares”) commencing July 6, 2018 and until the 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, SMFB 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 of Revenue Regulations (RR) 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.

Food segment

On February 6, 2018, the BOD and shareholders of San Miguel Super Coffeemix Co. Inc. (SMSCCI) ratified, among others, the increase in SMSCCI's authorized capital stock from P500.0 million, consisting of 50,000,000 million common shares at a par value of 10.00 per share, to 1,000 million, consisting of 100,000,000 million common shares at the same par value, as previously approved by the BOD and shareholders of SMSCCI on December 14, 2016.

On May 30, 2018, the SEC issued the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation approving, among others, the increase in SMSCCI's authorized capital stock.

II. FINANCIAL PERFORMANCE

(Amounts exclude inter-segment transactions)

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

The Group continued its robust growth in the market which resulted to a strong financial performance for the first half of 2018.

The consolidated sales for the six months ended June 30, 2018 amounted to P137,441 million, 15.4% higher compared to the same period last year. Food, Beer and NAB and Sprits increased their sales volume during the first half of the year. The consolidated net income amounted P15,370 million, 20.0% higher than last year, which is mainly attributed to higher sales volume and gross margin across all segment of the Group.

Sales

Our consolidated sales increased by 15.4% from P119,130 million for the six months ended June 30, 2017 to P137,441 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 P53,060 million for the six months ended June 30, 2017 to P62,509 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 P10,123 million for the six months ended June 30, 2017 to P12,046 million for the six months ended June 30, 2018. This increase was primarily due to increase in sales volume of core brands Ginebra San Miguel and Vino Kulafu by 18% driven by effective marketing campaigns.

Food

Sales in our Food segment increased by 12.4% from P55,947 million for the six months ended June 30, 2017 to P62,886 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 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 P80,152 million for the six months ended June 30, 2017 to P92,608 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 table summarizes the cost of sales for the six months ended June 30, 2018:

	Beer and NAB	Spirits	Food	Total
Inventories	P6,039	P4,371	P43,046	P53,456
Excise tax	25,297	3,741	-	29,038
Labor	830	142	724	1,696
Others	2,533	685	5,200	8,418
	P34,699	P8,939	P48,970	P92,608

Beer and NAB

Cost of sales in our Beer and NAB segment increased by 16.1% from P29,880 million for the six months ended June 30, 2017 to P34,699 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 P7,569 million for the six months ended June 30, 2017 to P8,939 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 P42,703 million for the six months ended June 30, 2017 to P48,970 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 P38,978 million for the six months ended June 30, 2017 to P44,833 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 P23,180 million for the six months ended June 30, 2017 to P27,810 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 P2,554 million for the six months ended June 30, 2017 to P3,107 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 P13,244 million for the six months ended June 30, 2017 to P13,916 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 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 P19,923 million for the six months ended June 30, 2017 to P21,944 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 P9,136 million for the six months ended June 30, 2017 to P10,495 million for the six months ended June 30, 2018. Distribution and contracted services costs increased from P1,603 million in the first semester of 2017 to P1,995 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 annual salary increases.

Spirits

Selling and administrative expenses in our Spirits segment increased by 12.1% from P2,003 million for the six months ended June 30, 2017 to P2,245 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 P8,784 million for the six months ended June 30, 2017 to P9,204 million for the six months ended June 30, 2018. The increase was mainly due to 14.2% increase in logistics costs from P4,271 million for the six months ended June 30, 2017 to P4,877 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 P1,372 million for the six months ended June 30, 2017 to P1,314 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 P3,000 million.

Interest Income

Our consolidated interest income increased by 71.6% from P317 million for the six months ended June 30, 2017 to P544 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 P41 million for the six months ended June 30, 2017 to P55 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 P12 million for the six months ended June 30, 2017 to P3 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 P42 million other income-net for the period ended June 30, 2017 to P203 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 P18,013 million for the six months ended June 30, 2017 to P21,864 million for the six months ended June 30, 2018.

Income Tax Expense

Our income tax expense increased by 24.7% from P5,208 million for the six months ended June 30, 2017 to P6,494 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 P12,805 million for the six months ended June 30, 2017 to P15,370 million for the six months ended June 30, 2018. Net income of the Beer and NAB segment increased by 25.6% from P9,400 million in 2017 to P11,803 million in 2018, net income of the Spirits segment increased by 90.9% from P265 million in 2017 to P506 million in 2018 and net income of the Food segment slightly decreased by 2.5% from P3,140 million in 2017 to P3,061 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 Minority Interest

As a result of the foregoing, our consolidated net income after tax and minority interest increased by 16.8% from P7,929 million for the six months ended June 30, 2017 to P9,260 million for the six months ended June 30, 2018. Net income after tax and minority interest of the Beer and NAB segment increased by 25.8% from P4,706 million in 2017 to P5,919 million in 2018, net income after tax and minority interest of the Spirits segment increased by 91.1% from P180 million in 2017 to P344 million in 2018 and net income after tax and minority interest of the Food segment slightly decreased by 1.5% from P3,043 million in 2017 to P2,997 million in 2018.

Business Highlights for the period ended June 30, 2018

Food

The Food segment posted sales revenue growth of 12.4% to P62,886 million, driven by the strong performance of its Feeds, Poultry and Fresh Meats and Branded Value-Added businesses. Poultry and Fresh Meats business sustained its growth momentum with revenues exceeding last year's level on the back of higher chicken volume and better selling prices. Demand outpaced supply growth allowing the prices of chicken and fresh meats to maintain their current levels for the first half of 2018. Branded Value-Added business likewise posted revenues higher than last year's level.

Double-digit increases in major raw materials of Feeds, Processed Meats and Dairy businesses, along with increase in sales volume as well as impact of Philippine Peso depreciation, resulted in higher cost of sales by 14.7% compared to last year's level. Selling price increases were implemented, albeit insufficient to cover for the rising costs of major raw materials.

As a result, income from operations grew by 5.7% to P4,712 million for the six-month period ended June 30, 2018, from P4,460 million last year.

Beer and NAB

Domestic Beer Operations

Domestic operations' posted a sales revenue growth of 19.3% owing to a 12.9% increase in sales volume coupled with the price increase implemented in October 2017. The strong volume growth was mainly driven by robust market demand for the Beer and NAB products supported by relevant marketing campaigns and trade and consumer promotions, further strengthening its brand equity.

Cost of sales increased by 17.8% resulting from the higher sales volume and excise taxes which took effect January 1, 2018.

Income from operations increased by P3,210 million from P13,558 million last year while net income reached P11,353 million, 27.4% higher than the same period in 2017.

International Beer Operations
San Miguel Brewing International Limited's ("SMBIL") consolidated volume for the first semester of 2018 was at 961.0 thousand hectolitres, 3% lower than 2017, largely due to the decline of economy brands in the Hong Kong, Indonesia, North China and Vietnam operations.

Operating income improved by 9% at US$10.5 million as a result of favorable margins due to better sales mix (decline mostly in economy brands) as well as price increases in Indonesia, Hong Kong, Vietnam and Thailand operations, which were partly offset by unfavorable foreign exchange rates and lower volumes. Prudent fixed cost management also contributed to the improvement in operating income.

Six months ended June 30, 2017 compared to six months ended June 30, 2016

The Group sustained its growth for the first half of 2017 resulting to solid financial performance. The consolidated sales for the period ended June 30, 2017 amounted to P119,130 million, 9.4% higher compared to the same period in 2016. Food, Beer and NAB and Sprits increased their sales volume during the first half of the year. The consolidated net income amounted P12,805 million, 17.6% higher than last year, which is mainly attributed to higher sales volume and gross margin across all segment of the Group.

Sales
The consolidated sales increased by 9.4% from P108,930 million for the period ended June 30 2016 to P119,130 million of the same period in 2017.

Beer and NAB
Sales in the Beer and NAB segment increased by 12.0% from P47,396 million for the six months ended June 30, 2016 to P53,060 million of the same period in 2017. This was primarily due to increase in sales from domestic operations.

Spirits
Sales in the Spirits segment increased by 20.5% from P8,402 million for the six months ended June 30, 2016 to P10,123 million of the same period in 2017. This increase was due to the steady improvement of core brand Ginebra San Miguel.

Food
Sales in the food segment increased by 5.3% from P53,132 million for the six months ended June 30, 2016 to P55,947 million for the six months ended June 30, 2017. Poultry and Fresh Meats and Processed Meats businesses continued to deliver good performance. Higher sales volume and better selling prices of chicken and pork drove revenue growth, tempering the impact of lower basic flour's selling prices.

Cost of Sales
Consolidated cost of sales increased by 8.8% from P73,692 million for the six months ended June 30, 2016 to P80,152 million for the six months ended June 30, 2017. This increase was primarily due to the increase in volume and prices in raw materials across all segments and higher excise taxes in the beer and Spirits products.

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

	Beer and NAB	Spirits	Food	Total
Inventories	P5,269	P3,516	P37,680	P46,465
Excise tax	21,812	3,316	-	25,128
Labor	746	108	621	1,475
Others	2,053	629	4,402	7,084
	P29,880	P7,569	P42,703	P80,152

Beer and NAB
Cost of sales in the Beer and NAB segment increased by 15.0% from P25,982 million for the six months ended June 30, 2016 to P29,880 million for the six months ended June 30, 2017. The increase was due to the increase in sales volume and higher excise taxes of domestic operations.

Spirits

Cost of sales in the Spirits segment increased by 21.7% from P6,219 million for the six months ended June 30, 2016 to P7,569 million for the six months ended June 30, 2017. The increase was primarily due to the increase in raw material prices and excise taxes despite continuous effort to manage costs.

Food

Cost of sales in the Food segment increased by 2.9% from P41,491 million for the six months ended June 30, 2016 to P42,703 million for the six months ended June 30, 2017. This was mainly due to the double-digit increase in prices of major raw materials of the Branded Value-Added business, partly cushioned by lower costs of major raw materials and improved operational efficiencies in the Feeds, Poultry and Fresh Meats businesses.

<u>Gross profit and margin</u>

Our consolidated gross profit increased by 10.6% from P35,238 million for the six months ended June 30, 2016 to P38,978 million for the six months ended June 30, 2017. This increase resulted primarily from the increase in sales in our Beer and NAB, Spirits, and Food segments.

Beer and NAB

Gross profit increased by 8.2% from P21,414 million for the six months ended June 30, 2016 to P23,180 million for the six months ended June 30, 2017. Gross margin decreased by 1.5% from 45.2% in the first half of 2016 to 43.7% in the same period in 2017 primarily due to higher excise tax.

Spirits

Gross profit increased by 17.0% from P2,183 million for the six months ended June 30, 2016 to P2,554 million for the six months ended June 30, 2017. Gross margin slightly declined by 0.8% from 26.0% in the first half of 2016 to 25.2% in the same period in 2017 primarily due to higher excise tax.

Food

Gross profit increased by 13.8% from P11,641 million for the six months ended June 30, 2016 to P13,244 million for the six months ended June 30, 2017. Gross margin increased by 1.8% from 21.9% in the first half of 2016 to 23.7% in the same period in 2018 due to higher sales volume and lower cost of raw materials.

<u>Selling and Administrative Expenses</u>

Our consolidated selling and administrative expenses increased by 6.7% from P18,673 million for the six months ended June 30, 2016 to P19,923 million for the six months ended June 30, 2017. This increase was primarily due to the increase in manpower, logistics and marketing costs.

Beer and NAB

Selling and administrative expenses in the Beer segment increased by 3.4% from P8,836 million for the six months ended June 30, 2016 to P9,136 million for the six months ended June 30, 2017. Distribution and contracted services costs as well as manpower costs in the first semester of 2017 increased by 9% over the same period in 2016 from P3,822 million to P4,165 million as a result of the 12.9% increase in domestic sales volume and the annual salary increases. Higher amortization of 31.5% resulted from the amortization of culletized bottles.

Spirits

Selling and administrative expenses in the Spirits segment increased by 11.4% from P1,798 million for the six months ended June 30, 2016 to P2,003 million for the six months ended June 30, 2017. The increase was primarily due the additional spending by 62% in advertising and promotion programs.

Food

Selling and administrative expenses in the Food segment increased by 9.3% from P8,039 million for the six months ended June 30, 2016 to P8,784 million for the six months ended June 30, 2017. The increase was primarily due to higher logistics costs. The Food segment's effort to expand distribution coverage and improve customer servicing resulted in higher warehouse rental, hauling, trucking and other related services.

<u>Interest Expense and Other Financing Charges</u>

Consolidated interest expense and other financing charges decreased by 7.2% from P1,479 million for the six months ended June 30, 2016 to P1,372 million for the six months ended June 30, 2017. The decrease was mainly due to the decline in short-term loan requirements and settlement of long-term obligation.

Interest Income

Consolidated interest income increased by 26.8% from P250 million for the six months ended June 30, 2016 to P317 million for the six months ended June 30, 2017. The increase was due to higher money market placements of both domestic and international operations of the Beer and NAB segment. This was tempered by the decline in the average level of money market placements and lower short-term money market interest rates of the Food segment.

Equity in Net Losses (Gains) of Joint Ventures

Consolidated equity in net losses of joint ventures decreased from P2 million equity in net gains of joint ventures for the six months ended June 30, 2016 to P41 million equity in net losses of joint ventures for the six months ended June 30, 2017. This decrease was due to the share in net losses recognized during the period.

Gain on Sale of Investments and Property and Equipment

Consolidated gain on sale of investments and property and equipment decreased by 90.3% from P124 million for the six months ended June 30, 2016 to P12 million for the six months ended June 30, 2017. This was lower in the first half of 2017, as gain from disposal of an investment property with substantial value was recorded in the same period in 2016.

Other Income (Charges) - Net

Consolidated other income (charges) - net increased from P40 million other charges-net for the period ended June 30, 2016 to P42 million other income-net for the six months ended June 30, 2017. This increase was primarily due to foreign exchange gains resulting from the appreciation of New Taiwan Dollar, Thai Baht and US Dollar from the Beer and NAB's International operations. Improvement in tolling income of the Spirits segment also contributed to the increase but was partially offset by the increase in derivative losses, brought about by the peso devaluation. Food segment also recognized impairment loss on idle assets of its foreign subsidiary.

Net Income before Income Tax

As a result of the foregoing, consolidated net income before income tax increased by 16.8% from P15,422 million for the six months ended June 30, 2016 to P18,013 million for the six months ended June 30, 2017.

Income Tax Expense

Consolidated income tax expense increased by 15.0% from P4,529 million for the six months ended June 30, 2016 to P5,208 million for the same period this year. This increase was primarily due to the higher consolidated taxable income.

Net Income

As a result of the foregoing, consolidated net income increased by 17.6% from P10,893 million for the six months ended June 30, 2016 to P12,805 million of the same period in 2017. Net income of the Beer and NAB segment increased by 13.9%% from P8,256 million in 2016 to P9,400 million in 2017, net income of the Spirits segment increased by 92.0% from P138 million in 2016 to P265 million in 2017 and net income of the Food segment increased by 25.7% from P2,499 million in 2017 to P3,140 million in 2017.

Net income across all three segments each experienced continued increase for the period. The Beer and NAB segment contributed a significant 73.4% of the total income, while the Food and Spirits segments contributed 24.5% and 2.1%, respectively.

Net Income after Tax and Minority Interest

As a result of the foregoing, consolidated net income after tax and minority interest increased by 19.0% from P6,662 million for the six months ended June 30, 2016 to P7,929 million for the six months ended June 30, 2017. Net income after tax and minority interest of the Beer and NAB segment increased by 13.5% from P4,146 million in 2016 to P4,706 million in 2017, net income after tax and minority interest of the Spirits segment increased by 71.4% from P105 million in 2016 to P180 million in 2017 and net income after tax and minority interest of the Food segment increased by 26.2% from P2,411 million in 2016 to P3,043 million in 2017.

Business Highlights for the period ended June 30, 2017

Food

The Food segment registered sales revenue growth of 5.3% to P55,947 million, as Poultry and Fresh Meats and Processed Meats businesses delivered good performance. Revenues of the Poultry and Fresh Meats business went up versus 2016 level as chicken and pork selling prices sustained uptrend given the temporary tightness in supply of broiler and fresh meats. Processed Meats business recorded revenue growth on the back of better sales mix, increased volume in all sales channels and continued market expansion. Revenue growth was tempered by the slide in basic flour selling prices brought about by the soft global wheat prices and intense industry competition.

Lower costs of major raw materials and improved operational efficiencies in the Feeds, Poultry and Fresh Meats business cushioned the impact of Philippine Peso depreciation as well as the double-digit increase in prices of major raw materials of the Branded Value-Added business, resulting in 2.9% increase in cost of sales.

With better margins and improved operational efficiencies, income from operations increased by 23.8% to P4,460 million from P3,602 million in the same period in 2016.

Beer and NAB

Domestic Beer Operations

Domestic operations posted revenues of P47,148 million, 13.2% higher than 2016, with volume growth of 9.9 million cases or a 10% increase versus 2016. The growth in sales volume was driven by relevant and consistent through-the-line campaigns, consumer and trade promos alongside favorable economic growth.

Cost of sales increased by P3,977 or 17.8% versus the same period in 2016 due to higher sales volume and excise taxes which took effect on January 1, 2017.

Driven by strong volume, income from operations grew by 10.9% to P13,558 million for the first half of 2017. Net income reached P8,911 million, 12.9% higher than the P7,895 million earned in 2016.

International Beer Operations

SMBIL's first semester consolidated volume for 2017 was at 986.7 thousand hectoliters, 5% behind 2016 primarily due to lower volumes in the Indonesia operations. The Indonesian market remains cautious following pronouncements by political parties suggesting total alcohol ban. North China operations' volumes also declined slightly due to slower offtake in Baoding City and the Blue Star brand. Hong Kong operations' volumes remained relatively flat versus 2016 with the continuation of the penetration drive in targeted trade channels. However, the volume declines were offset by the turnaround growth in domestic sales of the South China and Thailand operations, as well as the continued growth in the Vietnam operations. Export volumes also managed a 2% growth versus 2016, despite the temporary control on export shipments to selected markets, as SMBIL made improvements in its distribution system.

Despite lower volumes, 2017 first semester consolidated operating income for SMBIL was at US$9.6 million, a 28% increase versus 2016 levels due to higher margins resulting from better pricing, improved brand mix and lower variable costs.

III. FINANCIAL POSITION

(Amounts exclude inter-segment transactions)

Unaudited Financial Position as at June 30, 2018 vs Audited December 31, 2017

Consolidated total assets as of June 30, 2018 amounted to P212,040 million, P6,937 million higher than December 31, 2017. The increase was primarily due to the increase in plant, property and equipment and other noncurrent assets. Consolidated total liabilities as of June 30, 2018 amounted to P89,103 million, P1,379 million lower than last year. The decrease was primarily due to the settlement of short-term loans availed by Food and Spirits segments.

Cash and cash equivalents was slightly lower than December 31, 2017 balance as funds were used to finance ongoing expansion projects of the Food and Beer and NAB segments, as well as to pay one-time SEC filing fees in connection with the Company's increase in authorized capital stock.

Trade and other receivables decreased by 15.0% or P2,729 million due to higher collection of receivables from peak season sales, lower credit sales and continued effort to improve receivables' days level during the period for the Food and Beer and NAB segments.

Inventories increased by 9.1% or P2,574 million due to increase in purchases of finished goods, raw materials and containers in preparation for higher demand towards the second half of the year.

Current biological assets increased by 11.7% or P400 million on account of the purposive volume build-up of grown broiler to support expected higher demand for chicken for the Food segment.

Prepaid expenses and other current assets increased by 5.0% or P244 million due to higher deposit for excise tax of the domestic operations of the Beer and NAB segment but was partially offset by the utilization of input taxes and creditable withholding taxes applied against tax liabilities during the first half of 2018 of the Food segment.

Property, plant and equipment increased by 8.1% or P4,159 million mainly due to the expansion projects of the Food and Beer and NAB segments.

Other noncurrent assets increased by 15.7% or P2,162 million mainly due to domestic operations of the Beer and NAB segment's purchase of new bottles.

Notes payable decreased by 9.4% or P1,314 million mainly due to the settlement of short-term borrowings of the Spirits segment.

Dividends payable increased by 10.0% or P3 million mainly due to the unclaimed dividends payable to common stockholders of the Beer and NAB segment.

Current maturities of long-term debt increased to P12,850 million pertains to the Beer and NAB's Series C and Series E fixed rate bonds which will mature in April 2019 were reclassified from long-term debt.

Other noncurrent liabilities decreased by 5.9% or P137 million was due to payment of retirement liabilities of the Spirits segment and Food segment's reclassification of deposit for future stock subscription to non-controlling interests, following the issuance by a domestic subsidiary of shares of stock to a minority shareholder.

Consolidated total equity as of June 30, 2018 amounted to P122,937 million, P8,316 million higher than December 31, 2017. The increase was primarily due to the net income amounting to P15,370 million which was offset by the dividends declared by the Group amounting P7,578 million during the period.

Unaudited Financial Position as at June 30, 2017 vs Audited December 31, 2016

Consolidated total assets as of June 30, 2017 amounted to P188,115 million, P3,728 million higher than December 31, 2016. The increase was primarily due to the increase in plant, property and equipment. Consolidated total liabilities as of June 30, 2017 amounted to P82,381 million, P2,962 million lower than last year. The decrease was primarily due to the settlement of long-term loan availed by the Beer and NAB segment.

Cash and cash equivalents increased by 6.0% or P1,835 million mainly due to higher collection of receivables during the year of the food and Beer and NAB segments.

Trade and other receivables decreased by 24.7% or P4,630 million due to the collection of peak season sales made in December 2016 of the Food segment and the Group's continued effort to improve receivables' days level.

Inventories increased by 7.4% or P1,869 million mainly due to the increased importation of certain major raw materials for processed meats and feeds, and the intentional build-up of other major raw materials to support expected increase in volume in the second half of 2017 of the Food segment.

Current biological assets increased by 8.2% or P256 million due to increase in volume of the Food segment's grown broiler and poultry breeding stock, in anticipation of higher demand, resulted in 8.2% and 8.5% surge in current and noncurrent biological assets, respectively.

Property, plant and equipment increased by 10.5% or P4,367 million mainly due to Food segment's ongoing expansion projects.

Deferred tax assets decreased by 6.3% or P198 million due to Food segment's reversal of deferred tax asset provision and the Spirits segment's application of prior year taxes paid to current taxes due.

Notes payable decreased by 13.9% or P1,825 million mainly due to the settlement of short-term borrowings of the Food and Sprits segments.

Trade and other current liabilities increased by 8.8% or P2,374 million mainly due to higher volume of transactions with third party suppliers of the Food segment.

Income tax and other taxes payable decreased by 8.4% or P427 million mainly due to lower taxable income for the period ended June 30, 2017 compared to the year ended December 31, 2016 of the Food and Beer and NAB segments.

Dividends payable increased by 7.7% or P2 million mainly due to the unclaimed dividends payable to common stockholders of the Beer and NAB segment.

Current maturities of long-term debt decreased to P114 million was due to the Beer and NAB segment's Series D fixed rate bonds that were redeemed in April 2017.

Consolidated total equity as of June 30, 2017 amounted to P105,734 million, P6,690 million higher than December 31, 2016. The increase was primarily due to the net income amounting to P12,805 million which was offset by the dividends declared by the Group amounting P6,694 million during the period.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	June 30	
	Unaudited 2018	**Unaudited 2017**
	(in Millions)	
Net cash flows provided by operating activities	P19,096	P21,589
Net cash flows used in investing activities	(10,128)	(8,274)
Net cash flows used in financing activities	(9,642)	(11,579)

Net cash from operations basically consisted of income for the period and changes in non-cash current assets, certain current liabilities and others.

Net cash used in investing activities include the following:

	June 30	
	Unaudited 2018	**Unaudited 2017**
	(in Millions)	
Additions to property, plant and equipment and investment property	(P5,254)	(P5,541)
Increase in biological assets, intangible assets and other noncurrent assets	(4,887)	(2,749)
Proceeds from sale of investments and property, plant and equipment	13	16

Net cash used in financing activities consist of the following:

	June 30	
	Unaudited 2018	**Unaudited 2017**
	(in Millions)	
Proceeds from short-term borrowings	P80,410	P99,730
Payments of short-term and long-term borrowings	(81,783)	(104,616)
Cash dividends paid	(7,577)	(6,693)
Payment of share issuance costs	(692)	-

The effect of exchange rate changes on cash and cash equivalents amounted to P582 million and P99 million for the period ended June 30, 2018 and 2017, respectively.

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that Food Group uses. Analyses are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	Unaudited June 2018	Unaudited December 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

	Unaudited Period Ended June 2018	Unaudited Period Ended June 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	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

KPI	Formula
Volume Growth	$\left(\dfrac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}}\right)-1$
Revenue Growth	$\left(\dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$
Operating Margin	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *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. AND SUBSIDIARIES

TRADE AND OTHER RECEIVABLES

JUNE 30, 2018

(In Millions)

						Past Due				
		Total		**Current**		**1 - 30 Days**		**31 - 60 Days**		**Over 60 Days**
Trade	P	13,706	P	9,954	P	1,887	P	286	P	1,579
Non-trade		2,026		878		164		43		941
Others		1,207		208		90		35		874
Total		16,939	P	11,040	P	2,141	P	364	P	3,394
Less allowance for impairment losses		1,431								
Net	P	**15,508**								