CR03279-2018

# 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
   Mar 31, 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
   Formerly known as SAN MIGUEL PURE FOODS COMPANY INC.
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) | 1,666,670,960 |
| 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 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 | Mar 31, 2018 |
| Currency (indicate units, if applicable) | PhP (in thousands) |

**Balance Sheet**

| | Period Ended | Fiscal Year Ended (Audited) |
|---|---|---|
| | Mar 31, 2018 | Dec 31, 2017 |
| Current Assets | 41,278,086 | 44,864,837 |
| Total Assets | 80,455,272 | 81,874,480 |
| Current Liabilities | 30,725,484 | 32,989,249 |
| Total Liabilities | 31,499,594 | 33,726,467 |
| Retained Earnings/(Deficit) | 24,917,889 | 24,124,584 |
| Stockholders' Equity | 48,955,678 | 48,148,013 |
| Stockholders' Equity - Parent | 46,699,657 | 45,905,235 |
| Book Value per Share | 19.19 | 187.15 |

**Income Statement**

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|---|---|---|---|
| Gross Revenue | 29,823,750 | 26,660,975 | 29,823,750 | 26,660,975 |
| Gross Expense | 27,663,125 | 24,592,306 | 27,663,125 | 24,592,306 |
| Non-Operating Income | 27,813 | 31,152 | 27,813 | 31,152 |
| Non-Operating Expense | 226,929 | 75,980 | 226,929 | 75,980 |
| Income/(Loss) Before Tax | 1,961,509 | 2,023,841 | 1,961,509 | 2,023,841 |
| Income Tax Expense | 600,122 | 558,649 | 600,122 | 558,649 |
| Net Income/(Loss) After Tax | 1,361,387 | 1,465,192 | 1,361,387 | 1,465,192 |
| Net Income Attributable to Parent Equity Holder | 1,347,523 | 1,426,355 | 1,347,523 | 1,426,355 |
| Earnings/(Loss) Per Share (Basic) | 0.68 | 0.73 | 0.68 | 0.73 |
| Earnings/(Loss) Per Share (Diluted) | - | - | - | - |

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|---|---|---|
| Earnings/(Loss) Per Share (Basic) | 3.38 | 3.05 |
| Earnings/(Loss) Per Share (Diluted) | - | - |

**Other Relevant Information**

Please see attached SEC
Form 17-Q for the period ended March 31, 2018, filed with the Securities
and Exchange Commission on May 15, 2018.

**Filed on behalf by:**

| | |
|---|---|
| **Name** | Zenaida Postrado |
| **Designation** | VP & Chief Finance Officer |

SEC COPY

# COVER SHEET

1 1 8 4 0

S. E. C. Registration Number

SAN MIGUEL FOOD AND BEVERAGE, INC.

(Company's Full Name)

23rd Flr. JMT Bldg. ADB Ave. Pasig City

(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 |
|---|---|---|---|---|
| | | 17-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

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

Remarks = pls. Use black ink for scanning purposes

**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 **March 31, 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 March 31, 2018) |
|---|---|
| **Common Shares - P1.00 par value** | **1,666,670,960** |
| **Preferred Shares - P10.00 par value** | **15,000,000** |
| **Total Liabilities (in '000)** | **P31,499,594** |

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 consolidated 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 March 31, 2018 (with comparative figures as at December 31, 2017 and for the period ended March 31, 2017) and Selected Notes to Consolidated Financial Statements are hereto attached as Annex "A". Notes 8 and 9 of the Selected Notes to Consolidated Financial Statements contain the required information on the financial risk exposures and financial instruments of the Company.

### 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 **ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

Date May 15, 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)

**March 31, 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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(In Thousands)**

| | March 31 2018 Unaudited | December 31 2017 Audited |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 8 and 9) | **₱6,206,147** | ₱7,044,133 |
| Trade and other receivables - net (Notes 6, 8 and 9) | **9,357,550** | 11,572,575 |
| Inventories | **20,624,719** | 21,002,314 |
| Biological assets | **3,630,023** | 3,422,338 |
| Prepaid expenses and other current assets (Notes 6, 8 and 9) | **1,459,647** | 1,823,477 |
| Total Current Assets | **41,278,086** | 44,864,837 |
| **Noncurrent Assets** | | |
| Investment property - net | **776,657** | 776,818 |
| Property, plant and equipment - net (Note 4) | **29,488,270** | 27,411,740 |
| Biological assets - net of current portion | **2,788,745** | 2,695,257 |
| Trademarks and other intangible assets - net | **4,106,447** | 4,116,219 |
| Deferred tax assets | **741,911** | 800,736 |
| Other noncurrent assets (Notes 6, 8 and 9) | **1,275,156** | 1,208,873 |
| Total Noncurrent Assets | **39,177,186** | 37,009,643 |
| | **₱80,455,272** | ₱81,874,480 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Notes payable (Notes 6, 8 and 9) | **₱6,923,076** | ₱8,406,924 |
| Trade payables and other current liabilities (Notes 6, 8 and 9) | **22,788,296** | 23,836,843 |
| Income tax payable | **1,014,112** | 745,482 |
| Total Current Liabilities | **30,725,484** | 32,989,249 |
| **Noncurrent Liabilities** | | |
| Deferred tax liabilities | **25,048** | 26,856 |
| Other noncurrent liabilities (Note 6) | **749,062** | 710,362 |
| Total Noncurrent Liabilities | **774,110** | 737,218 |
| **Equity** (Note 5) | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock | **2,008,748** | 2,008,748 |
| Additional paid-in capital | **35,234,781** | 35,234,781 |
| Equity reserves | **(279,667)** | (280,784) |
| Retained earnings | | |
| Appropriated | **2,999,100** | 2,999,100 |
| Unappropriated | **21,918,789** | 21,125,484 |
| Treasury stock | **(15,182,094)** | (15,182,094) |
| | **46,699,657** | 45,905,235 |
| **Non-controlling Interests** | **2,256,021** | 2,242,778 |
| Total Equity | **48,955,678** | 48,148,013 |
| | **₱80,455,272** | ₱81,874,480 |

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

**CERTIFIED CORRECT:**

**ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

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

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
**(In Thousands, Except Per Share Data)**

| | For the Three Months Ended | |
|---|---|---|
| | March 31, 2018 | March 31, 2017 |
| **REVENUES** (Note 6) | **₱29,823,750** | ₱26,660,975 |
| **COST OF SALES** (Note 6) | **23,353,698** | 20,496,934 |
| **GROSS PROFIT** | **6,470,052** | 6,164,041 |
| **SELLING AND ADMINISTRATIVE EXPENSES** (Note 6) | **(4,309,427)** | (4,095,372) |
| **INTEREST EXPENSE AND OTHER FINANCING CHARGES** | **(30,561)** | (27,111) |
| **INTEREST INCOME** | **27,688** | 26,537 |
| **GAIN ON SALE OF PROPERTY AND EQUIPMENT** | **125** | 4,615 |
| **OTHER CHARGES** - Net | **(196,368)** | (48,869) |
| **INCOME BEFORE INCOME TAX** | **1,961,509** | 2,023,841 |
| **INCOME TAX EXPENSE** | **600,122** | 558,649 |
| **NET INCOME** | **₱1,361,387** | ₱1,465,192 |
| **Net income attributable to:** | | |
| Equity holders of the Parent Company | **₱1,347,523** | ₱1,426,355 |
| Non-controlling interests | **13,864** | 38,837 |
| | **₱1,361,387** | ₱1,465,192 |
| **Basic and Diluted Earnings per Common Share Attributable to Equity Holders of the Parent Company** (Note 7) | **₱0.68** | ₱0.73 |

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

**CERTIFIED CORRECT:**

**ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
**(In Thousands)**

| | For the Three Months Ended | |
|---|---|---|
| | **March 31, 2018** | March 31, 2017 |
| **NET INCOME** | **₱1,361,387** | ₱1,465,192 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Item that will not be reclassified to profit or loss** | | |
| Net gain on financial assets at fair value through other comprehensive income | **76** | – |
| Income tax benefit | **8** | – |
| **Items that may be reclassified to profit or loss** | | |
| Gain (loss) on exchange differences on translation of foreign operations | **412** | (564) |
| Net gain on available-for-sale financial assets | – | 343 |
| Income tax expense | – | (39) |
| **OTHER COMPREHENSIVE INCOME (LOSS) -** Net of tax | **496** | (260) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD -** Net of tax | **₱1,361,883** | ₱1,464,932 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Parent Company | **₱1,348,640** | ₱1,426,166 |
| Non-controlling interests | **13,243** | 38,766 |
| | **₱1,361,883** | ₱1,464,932 |

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

**CERTIFIED CORRECT:**

**ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## (In Thousands)

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | | Additional Paid-in Capital | Equity Reserves | | | | | Retained Earnings | | Treasury Stock | | | Non-controlling Interests | Total Equity |
| | Common Stock | Preferred Stock | | Reserve for Retirement Plan | Cumulative Translation Reserve | Revaluation Increment | Fair Value Reserve | Other Equity Reserves | Appropriated | Unappropriated | Common Stock | Preferred Stock | Total | | |
| **As at December 31, 2017 (Audited)** | **₱1,708,748** | **₱300,000** | **₱35,234,781** | **(₱547,615)** | **(₱140,614)** | **₱18,219** | **₱5,443** | **₱383,783** | **₱2,999,100** | **₱21,125,484** | **(₱182,094)** | **(₱15,000,000)** | **₱45,905,235** | **₱2,242,778** | **₱48,148,013** |
| Net income | – | – | – | – | – | – | – | – | – | **1,347,523** | – | – | **1,347,523** | **13,864** | **1,361,387** |
| Other comprehensive income (loss) | – | – | – | – | **1,033** | – | **84** | – | – | – | – | – | **1,117** | **(621)** | **496** |
| Total comprehensive income | – | – | – | – | **1,033** | – | **84** | – | – | **1,347,523** | – | – | **1,348,640** | **13,243** | **1,361,883** |
| Cash dividends | – | – | – | – | – | – | – | – | – | **(545,468)** | – | – | **(545,468)** | – | **(545,468)** |
| Share transaction costs, net of tax | – | – | – | – | – | – | – | – | – | **(8,750)** | – | – | **(8,750)** | – | **(8,750)** |
| **As at March 31, 2018 (Unaudited)** | **₱1,708,748** | **₱300,000** | **₱35,234,781** | **(₱547,615)** | **(₱139,581)** | **₱18,219** | **₱5,527** | **₱383,783** | **₱2,999,100** | **₱21,918,789** | **(₱182,094)** | **(₱15,000,000)** | **₱46,699,657** | **₱2,256,021** | **₱48,955,678** |
| As at December 31, 2016 (Audited) | ₱1,708,748 | ₱300,000 | ₱35,234,781 | (₱386,313) | (₱142,313) | ₱18,219 | ₱5,199 | ₱383,783 | ₱2,999,100 | ₱16,411,813 | (₱182,094) | (₱15,000,000) | ₱41,350,923 | ₱1,835,736 | ₱43,186,659 |
| Net income | – | – | – | – | – | – | – | – | – | 1,426,355 | – | – | 1,426,355 | 38,837 | 1,465,192 |
| Other comprehensive income (loss) | – | – | – | – | (493) | – | 304 | – | – | – | – | – | (189) | (71) | (260) |
| Total comprehensive income (loss) | – | – | – | – | (493) | – | 304 | – | – | 1,426,355 | – | – | 1,426,166 | 38,766 | 1,464,932 |
| Cash dividends | – | – | – | – | – | – | – | – | – | (462,135) | – | – | (462,135) | – | (462,135) |
| As at March 31, 2017 (Unaudited) | ₱1,708,748 | ₱300,000 | ₱35,234,781 | (₱386,313) | (₱142,806) | ₱18,219 | ₱5,503 | ₱383,783 | ₱2,999,100 | ₱17,376,033 | (₱182,094) | (₱15,000,000) | ₱42,314,954 | ₱1,874,502 | ₱44,189,456 |

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

**CERTIFIED CORRECT:**

**ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

## SAN MIGUEL FOOD AND BEVERAGE, INC.
*(Formerly San Miguel Pure Foods Company Inc.)*
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
**(In Thousands)**

| | For the Three Months Ended | |
|---|---|---|
| | **March 31 2018** | March 31 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱1,961,509** | ₱2,023,841 |
| Adjustments for: | | |
| Depreciation and amortization | **953,462** | 803,984 |
| Interest expense and other financing charges | **30,561** | 27,111 |
| Allowance for impairment losses on receivables and write-down of inventories | **51,208** | 88,638 |
| Other charges (income) net of loss (gain) on derivative transactions | **136,378** | (44,317) |
| Interest income | **(27,688)** | (26,537) |
| Gain on fair valuation of agricultural produce | **(36,495)** | (35,477) |
| Gain on sale of property and equipment | **(125)** | (4,615) |
| Operating income before working capital changes | **3,068,810** | 2,832,628 |
| Decrease (increase) in: | | |
| Trade and other receivables | **2,221,152** | 3,818,463 |
| Inventories | **341,852** | 14,151 |
| Biological assets | **(207,685)** | (211,247) |
| Prepaid expenses and other current assets | **268,665** | 214,904 |
| Increase (decrease) in trade payables and other current liabilities | **(1,112,145)** | 1,515,296 |
| Cash generated from operations | **4,580,649** | 8,184,195 |
| Interest received | **22,448** | 21,646 |
| Interest paid | **(29,157)** | (23,122) |
| Income taxes paid | **(270,538)** | (275,176) |
| Increase (decrease) in retirement liability | **65,724** | (21,726) |
| Net cash flows provided by operating activities | **4,369,126** | 7,885,817 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of property, plant and equipment | **(2,262,630)** | (2,901,609) |
| Increase in noncurrent biological assets and other noncurrent assets | **(895,336)** | (745,896) |
| Proceeds from sale of property and equipment | **125** | 5,336 |
| Net cash flows used in investing activities | **(3,157,841)** | (3,642,169) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Availments of notes payable | **29,677,796** | 31,778,814 |
| Payments of notes payable | **(31,165,988)** | (33,086,968) |
| Cash dividends paid | **(545,273)** | (463,239) |
| Payment of stock transaction cost | **(12,500)** | – |
| Net cash flows used in financing activities | **(2,045,965)** | (1,771,393) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(3,306)** | (574) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(837,986)** | 2,471,681 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **7,044,133** | 7,539,514 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **₱6,206,147** | ₱10,011,195 |

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

**CERTIFIED CORRECT:**

**ZENAIDA M. POSTRADO**
Treasurer and Chief Finance Officer

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

## SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
**(Amounts in Thousands, 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"). The accompanying consolidated financial statements comprise the financial statements of the Group.

The Group is engaged in various business activities, which as at 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.

The registered office address of the Parent Company is at 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City.

On March 27, 2018, the Parent Company received from the SEC a copy of the Certificate of Filing of Amended Articles of Incorporation issued by the SEC's Company Registration and Monitoring Department on March 23, 2018, approving the change in the Parent Company's corporate name from "San Miguel Pure Foods Company Inc." to "San Miguel Food and Beverage, Inc.", expanding its primary purpose to include the authority to engage in the beverage business, reducing the par value of its common shares and denying pre-emptive rights for issuances and dispositions of any and all common shares (collectively, the "First Amendments").

### 2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended March 31, 2018 and comparative financial statements for the same period in 2017 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New and Amended Standards and Interpretations

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

*New and Amended to Standards and Interpretation Adopted in 2018*

The Group has adopted the following PFRS effective 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.

- Classification and Measurement of Share-based Payment Transactions *(Amendments to PFRS 2, Share-based Payment)*. The amendments cover the following areas: (a) Measurement of cash-settled awards. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method. (b) Classification of awards settled net of withholding tax. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized and the amount recognized in equity is recognized in the consolidated statements of income immediately.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (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.

- 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 interim consolidated financial statements.

*New and Amended Standards and Interpretation Not Yet Adopted*

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of the new standard.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12 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 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 amendments clarify that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendments are 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 amendments to the Basis for Conclusions on PFRS 9 clarify that the standard provides 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.

  The amendments were approved by the FRSC on November 8, 2017 but is still subject to the approval by the BOA.

- Plan Amendment, Curtailment or Settlement *(Aendments 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 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, then 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, Income Taxes)*. The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, other comprehensive income or equity.

      The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

    - Borrowing Costs Eligible for Capitalization *(Amendments to PAS 23, Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

      The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

      The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Amendments to References to 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.

## 3. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has three reportable segments, namely, Agro-Industrial, Branded Value-Added and Milling. 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 Agro-Industrial segment includes the integrated Feeds, and Poultry and Fresh Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Branded Value-Added segment is engaged in the processing and marketing of value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes, and importation and marketing of coffee and coffee-related products.

The Milling segment is into manufacturing and marketing of flour and bakery ingredients, and is engaged in grain terminal handling.

The non-reportable operating segments of the Group include foreign operations which are engaged in the production and marketing of processed meats.

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 consolidation.

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 follows:

| | For the Three Months Ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Agro-Industrial | Branded Value-Added | Milling | Total Reportable Segments | Others | Eliminations | Consolidated |
| Revenues | | | | | | | |
| External | **₱20,606,305** | **₱6,805,608** | **₱1,964,220** | **₱29,376,133** | **₱447,617** | **₱–** | **₱29,823,750** |
| Inter-segment | **420,854** | **472** | **405,724** | **827,050** | **876** | **(827,926)** | **–** |
| Total revenues | **₱21,027,159** | **₱6,806,080** | **₱2,369,944** | **₱30,203,183** | **₱448,493** | **(₱827,926)** | **₱29,823,750** |
| Segment operating results | **₱1,286,548** | **₱368,417** | **₱343,435** | **₱1,998,400** | **₱162,225** | **₱–** | **₱2,160,625** |
| Interest expense and other financing charges | **(70)** | **(18,872)** | **(6,907)** | **(25,849)** | **(5,151)** | **439** | **(30,561)** |
| Interest income | **6,961** | **4,429** | **1,114** | **12,504** | **15,623** | **(439)** | **27,688** |
| Gain on sale of property and equipment | **125** | **–** | **–** | **125** | **–** | **–** | **125** |
| Other income (charges) - net | **(92,966)** | **(104,808)** | **(3,232)** | **(201,006)** | **4,638** | **–** | **(196,368)** |
| Income tax expense | **(357,487)** | **(95,438)** | **(100,215)** | **(553,140)** | **(46,982)** | **–** | **(600,122)** |
| Net income | **₱843,111** | **₱153,728** | **₱234,195** | **₱1,231,034** | **₱130,353** | **₱–** | **₱1,361,387** |

| | For the Three Months Ended March 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Agro-Industrial | Branded Value-Added | Milling | Total Reportable Segments | Others | Eliminations | Consolidated |
| Revenues | | | | | | | |
| External | ₱18,366,299 | ₱5,824,049 | ₱2,046,884 | ₱26,237,232 | ₱423,743 | ₱− | ₱26,660,975 |
| Inter-segment | 365,271 | 683 | 402,702 | 768,656 | − | (768,656) | − |
| Total revenues | ₱18,731,570 | ₱5,824,732 | ₱2,449,586 | ₱27,005,888 | ₱423,743 | (₱768,656) | ₱26,660,975 |
| Segment operating results | ₱1,277,941 | ₱374,433 | ₱420,775 | ₱2,073,149 | (₱4,480) | ₱− | ₱2,068,669 |
| Interest expense and other financing charges | (839) | (14,778) | (6,204) | (21,821) | (5,701) | 411 | (27,111) |
| Interest income | 6,497 | 4,749 | 2,438 | 13,684 | 13,264 | (411) | 26,537 |
| Gain on sale of property and equipment | 4,355 | − | − | 4,355 | 260 | − | 4,615 |
| Other charges - net | (33,696) | (1,937) | (27) | (35,660) | (13,209) | − | (48,869) |
| Income tax benefit (expense) | (374,345) | (108,442) | (116,040) | (598,827) | 40,178 | − | (558,649) |
| Net income | ₱879,913 | ₱254,025 | ₱300,942 | ₱1,434,880 | ₱30,312 | ₱− | ₱1,465,192 |

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 Three Months Ended** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Agro - Industrial** | | **Branded Value-Added** | | **Milling** | | **Others** | | **Consolidated** | |
| | **March 31 2018** | March 31 2017 | **March 31 2018** | March 31 2017 | **March 31 2018** | March 31 2017 | **March 31 2018** | March 31 2017 | **March 31 2018** | March 31 2017 |
| **Timing of revenue recognition** | | | | | | | | | | |
| Sales recognized at point in time | **₱20,606,305** | ₱18,366,299 | **₱6,800,058** | ₱5,818,499 | **₱1,961,001** | ₱2,038,105 | **₱447,617** | ₱423,743 | **₱29,814,981** | ₱26,646,646 |
| Sales recognized over time | **−** | − | **5,550** | 5,550 | **3,219** | 8,779 | **−** | − | **8,769** | 14,329 |
| Total revenues | **₱20,606,305** | ₱18,366,299 | **₱6,805,608** | ₱5,824,049 | **₱1,964,220** | ₱2,046,884 | **₱447,617** | ₱423,743 | **₱29,823,750** | ₱26,660,975 |

## 4. Property, Plant and Equipment

This account consists of:

**March 31, 2018 and December 31, 2017**

| | **Land and Land Improvements** | **Buildings and Improvements** | **Machinery Equipment, Furniture and Others** | **Transportation Equipment** | **Capital Projects in Progress** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| January 1, 2017 (Audited) | ₱2,956,868 | ₱6,668,416 | ₱10,975,995 | ₱307,658 | ₱7,370,337 | ₱28,279,274 |
| Additions | 698,892 | 150,575 | 515,970 | 297,481 | 9,227,014 | 10,889,932 |
| Disposals | − | − | (267,612) | (320,943) | − | (588,555) |
| Transfers, reclassifications and others | − | − | 10,820 | − | 59,228 | 70,048 |
| Cumulative translation reserve | (101) | (23) | (549) | (44) | − | (717) |
| December 31, 2017 (Audited) | 3,655,659 | 6,818,968 | 11,234,624 | 284,152 | 16,656,579 | 38,649,982 |
| Additions | 151,049 | 74,371 | 170,789 | − | 1,866,421 | 2,262,630 |
| Disposals | − | − | − | (963) | − | (963) |
| Transfers, reclassifications and others | (236,400) | − | 159 | − | 279,113 | 42,872 |
| Cumulative translation reserve | 676 | 2,602 | 8,655 | 321 | 85 | 12,339 |
| **March 31, 2018 (Unaudited)** | **3,570,984** | **6,895,941** | **11,414,227** | **283,510** | **18,802,198** | **40,966,860** |
| **Accumulated depreciation** | | | | | | |
| January 1, 2017 (Audited) | 373,778 | 2,573,538 | 7,371,164 | 289,799 | − | 10,608,279 |
| Additions | 15,446 | 255,074 | 640,030 | 6,594 | − | 917,144 |
| Disposals | − | − | (260,792) | (36,495) | − | (297,287) |
| Transfers, reclassifications and others | − | − | 10,820 | − | − | 10,820 |
| Cumulative translation reserve | − | (62) | (608) | (44) | − | (714) |
| December 31, 2017 (Audited) | 389,224 | 2,828,550 | 7,760,614 | 259,854 | − | 11,238,242 |
| Additions | 4,111 | 64,308 | 161,837 | 1,774 | − | 232,030 |
| Disposals | − | − | − | (963) | − | (963) |
| Transfers, reclassifications and others | − | − | 69 | 1 | − | 70 |
| Cumulative translation reserve | − | 1,656 | 7,234 | 321 | − | 9,211 |
| **March 31, 2018 (Unaudited)** | **393,335** | **2,894,514** | **7,929,754** | **260,987** | **−** | **11,478,590** |
| **Carrying amount** | | | | | | |
| December 31, 2017 (Audited) | ₱3,266,435 | ₱3,990,418 | ₱3,474,010 | ₱24,298 | ₱16,656,579 | ₱27,411,740 |
| **March 31, 2018 (Unaudited)** | **₱3,177,649** | **₱4,001,427** | **₱3,484,473** | **₱22,523** | **₱18,802,198** | **₱29,488,270** |

March 31, 2017

| | Land and Land Improvements | Buildings and Improvements | Machinery Equipment, Furniture and Others | Transportation Equipment | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| January 1, 2017 (Audited) | ₱2,956,868 | ₱6,668,416 | ₱10,975,995 | ₱307,658 | ₱7,370,337 | ₱28,279,274 |
| Additions | − | 18,739 | 86,485 | 6,381 | 2,790,004 | 2,901,609 |
| Disposals | − | − | (740) | (26,034) | − | (26,774) |
| Cumulative translation reserve | 404 | 917 | 3,309 | 188 | − | 4,818 |
| March 31, 2017 (Unaudited) | 2,957,272 | 6,688,072 | 11,065,049 | 288,193 | 10,160,341 | 31,158,927 |
| Accumulated depreciation | | | | | | |
| January 1, 2017 (Audited) | 373,778 | 2,573,538 | 7,371,164 | 289,799 | − | 10,608,279 |
| Additions | 3,681 | 63,254 | 158,419 | 1,417 | − | 226,771 |
| Disposals | − | − | (19) | (26,034) | − | (26,053) |
| Cumulative translation reserve | − | 537 | 2,557 | 187 | − | 3,281 |
| March 31, 2017 (Unaudited) | 377,459 | 2,637,329 | 7,532,121 | 265,369 | − | 10,812,278 |
| Carrying amount | | | | | | |
| March 31, 2017 (Unaudited) | ₱2,579,813 | ₱4,050,743 | ₱3,532,928 | ₱22,824 | ₱10,160,341 | ₱20,346,649 |

Depreciation recognized in the consolidated statements of income amounted to ₱232.0 million and ₱226.8 million for the periods ended March 31, 2018 and 2017, respectively.

On December 15, 2017, Magnolia Inc. (“Magnolia”) entered into an Asset Purchase Agreement (the “Agreement”) with Felicisimo Martinez & Co. Inc. (FMC) for the purchase of FMC’s parcels of land, buildings and improvements, and machineries and equipment (collectively, the “Purchased Assets”) pertaining to the manufacturing plant where Magnolia's La Pacita biscuits are being toll-manufactured. The refundable deposit paid by Magnolia in December 2017 was recognized by Magnolia as part of "Non-trade receivables" as at December 31, 2017.

In February 2018, the acquisition by Magnolia of FMC's Purchased Assets was completed following the substantial fulfillment of the closing conditions of the Agreement and the payment of the consideration for such Purchased Assets.

## 5. Equity

*Capital Stock*

On January 18, 2018, the stockholders of the Parent Company approved, among others, the stock split of the Parent Company's common shares through the reduction of the par value from ₱10.00 per share to ₱1.00 per share.

On March 23, 2018, the SEC approved, among others, such corporate action (Note 1).

As at March 31, 2018, the Parent Company's capital stock, at ₱1.00 par value per common share and ₱10.00 par value per preferred share, consists of the following number of shares:

| | Common | Preferred |
|---|---|---|
| Issued shares at beginning of period | 170,874,854 | 30,000,000 |
| Additional number of shares due to stock split | 1,537,873,686 | − |
| Treasury shares | (42,077,580) | (15,000,000) |
| Issued and outstanding shares at end of period | 1,666,670,960 | 15,000,000 |
| Authorized shares | 2,060,000,000 | 40,000,000 |

Preferred Shares issued and listed with the PSE on March 3, 2011

A summary of the Terms of the Offer is set out below:

The Parent Company, through its underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of ₱1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Parent Company, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events), as well as on the 3rd anniversary from issuance date or on any dividend payment date thereafter, as and if declared by the BOD. Unless the preferred shares are redeemed by the Parent Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On February 3, 2015, the Parent Company's Board of Directors (BOD) approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of the Parent Company's treasury shares.

Perpetual Series "2" Preferred Shares issued and listed with the PSE on March 12, 2015

On January 20, 2015, the board of directors of the PSE approved, subject to SEC approval and certain conditions, the application of th Parent Company to list up to 15,000,000 perpetual series "2" preferred shares (PFP2 Shares) with a par value of ₱10.00 per share to cover the Parent Company's preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Parent Company's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share (the "PFP2 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 PFP2 Shares with a par value of ₱10.00 per share to cover the PFP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the Parent Company's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

The Parent Company, through its underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of ₱1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of the Parent Company, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by the Parent Company on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by the Parent Company, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the Parent Company's 15,000,000 PFP2 Shares with par value of ₱10.00 per share were issued and listed with the PSE.

The proceeds from the issuance of PFP2 shares, net of transaction costs, amounted to ₱14,884.5 million.

As at March 31, 2018, the Parent Company has a total of 132 and 109 common and preferred stockholders, respectively.

*Treasury Shares*

Treasury shares, totaling 42,077,580 and 4,207,758 common shares as at March 31, 2018 and December 31, 2017, respectively, and 15,000,000 preferred shares as at March 31, 2018 and December 31, 2017, are carried at cost.

*Appropriated Retained Earnings*

(i) In March 2014, the BOD of The Purefoods-Hormel Company, Inc. (PF-Hormel) approved an additional appropriation amounting to ₱750.0 million increasing its total appropriated retained earnings from ₱1,250.0 million to ₱2,000.0 million, to finance a plant expansion. The project started in 2015 and is expected to be completed in two years.

In March 2016, the BOD of PF-Hormel approved the reversal of the retained earnings appropriation amounting to ₱2,000.0 million.

In July 2016, PF-Hormel reversed the retained earnings appropriation amounting to ₱2,000.0 million.

(ii) In June 2015, the BOD of San Miguel Foods, Inc. (SMFI) approved an appropriation amounting to ₱3,000.0 million to finance SMFI's feed mill expansion projects. The projects started in 2015 and are expected to be completed in three years.

(iii) In June 2015, the BOD of San Miguel Mills, Inc. (SMMI) approved an appropriation amounting to ₱2,000.0 million to finance SMMI's flour mill expansion project. The project started in 2015 and is expected to be completed in two years.

In December 2015, the BOD of SMMI approved, among others, the reversal of the June 2015 retained earnings appropriation amounting to ₱2,000.0 million upon approval by the SEC of the increase in SMMI's authorized capital stock.

In March 2016, SMMI reversed the June 2015 retained earnings appropriation amounting to ₱2,000.0 million.

*Cash Dividends*

The BOD of the Parent Company approved the declaration and payment of the following cash dividends to common and preferred shareholders:

**2018**

| **Class of Shares** | **Date of Declaration** | **Date of Record** | **Date of Payment** | **Dividend per Share** |
|---|---|---|---|---|
| Common | February 1, 2018 | February 19, 2018 | March 1, 2018 | **₱2.00** |
| Preferred - PFP2 | February 1, 2018 | February 19, 2018 | March 12, 2018 | **14.14225** |

2017

| Class of Shares | Date of Declaration | Date of Record | Date of Payment | Dividend per Share |
|---|---|---|---|---|
| Common | February 2, 2017 | February 17, 2017 | March 1, 2017 | ₱1.50 |
| Preferred - PFP2 | February 2, 2017 | February 17, 2017 | March 13, 2017 | 14.14225 |

**6. Related Party Disclosures**

The Parent Company and certain subsidiaries and their shareholders purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial period 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:

| | Period | Revenues from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Ultimate Parent Company | December 31, 2017 | ₱40 | ₱– | ₱147 | ₱– | On demand; non-interest bearing | Unsecured; no impairment |
| Intermediate Parent Company | **March 31, 2018** | **2,002** | **119,375** | **57,847** | **232,305** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2017 | 34,989 | 655,573 | 88,094 | 264,302 | | |
| Entities under Common Control | **March 31, 2018** | **16,660** | **1,662,823** | **300,716** | **2,007,219** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2017 | 184,205 | 7,118,632 | 367,669 | 1,843,731 | | |
| Associate of Intermediate Parent Company | **March 31, 2018** | – | – | – | **1,168,000** | Less than 3 months; interest bearing | Unsecured; no impairment |
| | December 31, 2017 | – | – | – | 2,024,500 | | |
| Shareholders in Subsidiaries and its Affiliates | **March 31, 2018** | – | **111,306** | **37,427** | **1,269** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2017 | 173,549 | 492,732 | 1,267 | 31,353 | | |
| **Total** | **March 31, 2018** | **₱18,662** | **₱1,893,504** | **₱395,990** | **₱3,408,793** | | |
| Total | December 31, 2017 | ₱392,783 | ₱ 8,266,937 | ₱457,177 | ₱4,163,886 | | |

Amounts owed by related parties consist mainly of trade and non-trade receivables. As at March 31, 2018 and December 31, 2017, amounts owed by related parties amounting to ₱2.6 million and ₱10.2 million, respectively, are included under "Prepaid expenses and other current assets" account. Amounts owed by related parties amounting to ₱61.3 million as at March 31, 2018 and December 31, 2017, are included under "Other noncurrent assets" account.

Amounts owed to related parties consist mainly of trade and non-trade payables and management fees.

Amounts owed to associate of the intermediate parent company amounting to ₱1,168.0 million and ₱2,024.5 million as at March 31, 2018 and December 31, 2017, respectively, represents interest-bearing loans payable to Bank of Commerce presented as part of "Notes payable" account in the consolidated statements of financial position.

Amounts owed to entities under common control amounting to ₱1.8 million and ₱31.7 million as at March 31, 2018 and December 31, 2017, respectively, are included under "Other noncurrent liabilities" account in the consolidated statements of financial position.

## 7. Basic and Diluted Earnings Per Common Share

Basic and diluted earnings per common share 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.

Basic earnings per common share is computed as follows:

| | For the Three Months Ended | |
|---|---|---|
| | **March 31, 2018** | March 31, 2017 |
| Net income attributable to equity holders of the Parent Company | **₱1,347,523** | ₱1,426,355 |
| Dividends on preferred shares for the period | **(212,134)** | (212,134) |
| Net income attributable to common shareholders of the Parent Company (a) | **₱1,135,389** | ₱1,214,221 |
| Weighted average number of common shares issued and outstanding prior to stock split (in thousands) | **166,667** | 166,667 |
| Additional common shares due to stock split including retroactive adjustment (in thousands) (Note 1) | **1,500,004** | 1,500,004 |
| Weighted average number of common shares issued and outstanding after stock split (in thousands) (b) (Note 5) | **1,666,671** | 1,666,671 |
| Basic earnings per common share attributable to equity holders of the Parent Company (a/b) | **₱0.68** | ₱0.73 |

As at March 31, 2018 and 2017, the Group has no dilutive equity instruments.

## 8. 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, trade payables and other current liabilities, excluding dividends payable and statutory liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The 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 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 consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, 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.

The accounting policies in relation to derivatives are set out in Note 9 to the selected notes to the interim consolidated financial statements.

Interest Rate Risk

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

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

As at March 31, 2018 and December 31, 2017, the Group has no floating rate borrowings.

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.

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

| | **March 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$3,116** | **₱162,531** | US$2,112 | ₱105,452 |
| Trade and other receivables | **3,368** | **175,675** | 3,435 | 171,510 |
| | **6,484** | **338,206** | 5,547 | 276,962 |
| **Liabilities** | | | | |
| Notes payable | **2,923** | **152,464** | 2,957 | 147,643 |
| Trade payables and other current liabilities | **12,467** | **650,279** | 14,689 | 733,422 |
| | **15,390** | **802,743** | 17,646 | 881,065 |
| Net foreign currency-denominated monetary liabilities | **(US$8,906)** | **(₱464,537)** | (US$12,099) | (₱604,103) |

The Group reported net foreign exchange gains (losses) of (₱10.2 million) and ₱4.4 million for the periods ended March 31, 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:

| | **Philippine Peso to US Dollar** |
|---|---|
| March 31, 2018 | 52.16 |
| December 31, 2017 | 49.93 |
| March 31, 2017 | 50.16 |
| 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 tables demonstrate the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as at March 31, 2018 and December 31, 2017.

| | **March 31, 2018** | | | |
|---|---|---|---|---|
| | **₱1 Decrease in the US Dollar Exchange Rate** | | **₱1 Increase in the US Dollar Exchange Rate** | |
| | **Effect on Income before Income Tax** | **Effect on Equity (Net of Tax)** | **Effect on Income before Income Tax** | **Effect on Equity (Net of Tax)** |
| Cash and cash equivalents | **(₱1,654)** | **(₱2,620)** | **₱1,654** | **₱2,620** |
| Trade and other receivables | **(1,023)** | **(3,061)** | **1,023** | **3,061** |
| | **(2,677)** | **(5,681)** | **2,677** | **5,681** |
| Notes payable | **–** | **2,923** | **–** | **(2,923)** |
| Trade payables and other current liabilities | **8,610** | **9,884** | **(8,610)** | **(9,884)** |
| | **8,610** | **12,807** | **(8,610)** | **(12,807)** |
| | **₱5,933** | **₱7,126** | **(₱5,933)** | **(₱7,126)** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | ₱1 Decrease in the US Dollar Exchange Rate | | ₱1 Increase in the US Dollar Exchange Rate | |
| | Effect on Income before Income Tax | Effect on Equity (Net of Tax) | Effect on Income before Income Tax | Effect on Equity (Net of Tax) |
| Cash and cash equivalents | (₱621) | (₱1,926) | ₱621 | ₱1,926 |
| Trade and other receivables | (843) | (3,182) | 843 | 3,182 |
| | (1,464) | (5,108) | 1,464 | 5,108 |
| Notes payable | – | 2,957 | – | (2,957) |
| Trade payables and other current liabilities | 10,519 | 11,533 | (10,519) | (11,533) |
| | 10,519 | 14,490 | (10,519) | (14,490) |
| | ₱9,055 | ₱9,382 | (₱9,055) | (₱9,382) |

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

Commodity Price Risk

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

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

The Group uses commodity futures, swaps and options to manage the Group's exposures to volatility in prices of certain commodities such as soybean meal and wheat.

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

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

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

The 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.

| | March 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Carrying Amount** | **Contractual Cash Flow** | **1 Year or Less** | **> 1 Year - 2 Years** | **> 2 Years - 5 Years** | **Over 5 Years** |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **₱6,206,147** | **₱6,206,147** | **₱6,206,147** | **₱–** | **₱–** | **₱–** |
| Trade and other receivables - net | **9,357,550** | **9,357,550** | **9,357,550** | **–** | **–** | **–** |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **4,840** | **4,840** | **4,840** | **–** | **–** | **–** |
| Financial assets at FVOCI (included under "Other noncurrent assets" account) | **12,308** | **12,308** | **–** | **–** | **–** | **12,308** |
| Noncurrent receivables and deposits (included under "Other noncurrent assets" account) | **568,695** | **568,695** | **–** | **179,024** | **216,650** | **173,021** |
| **Financial Liabilities** | | | | | | |
| Notes payable | **6,923,076** | **6,938,610** | **6,938,610** | **–** | **–** | **–** |
| Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities) | **21,827,669** | **21,827,669** | **21,827,669** | **–** | **–** | **–** |
| Derivative liabilities (included under "Trade payables and other current liabilities" account) | **127,696** | **127,696** | **127,696** | **–** | **–** | **–** |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
| Financial Assets | | | | | | |
| Cash and cash equivalents | ₱7,044,133 | ₱7,044,133 | ₱7,044,133 | ₱– | ₱– | ₱– |
| Trade and other receivables - net | 11,572,575 | 11,572,575 | 11,572,575 | – | – | – |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | 50,274 | 50,274 | 50,274 | – | – | – |
| AFS financial assets at (included under "Other noncurrent assets" account) | 12,224 | 12,224 | – | – | – | 12,224 |
| Noncurrent receivables and deposits (included under "Other noncurrent assets" account) | 562,916 | 562,916 | – | 117,113 | 180,953 | 264,850 |
| Financial Liabilities | | | | | | |
| Notes payable | 8,406,924 | 8,419,411 | 8,419,411 | – | – | – |
| Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities) | 22,585,244 | 22,585,244 | 22,585,244 | – | – | – |
| Derivative liabilities (included under "Trade payables and other current liabilities" account) | 49,859 | 49,859 | 49,859 | – | – | – |
| Other noncurrent liabilities (excluding operating lease liability, deposit for future stock subscription and retirement liability) | 30,053 | 30,053 | – | 30,053 | – | – |

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

*Trade and Other Receivables*

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

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

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.

*Investments*
The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as at March 31, 2018 and December 31, 2017, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

| | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | **₱6,196,630** | ₱7,035,081 |
| Trade and other receivables - net | **9,357,550** | 11,572,575 |
| Derivative assets | **4,840** | 50,274 |
| Financial assets at FVOCI | **12,308** | 12,224 |
| Noncurrent receivables and deposits | **568,695** | 562,916 |
| | **₱16,140,023** | ₱19,233,070 |

The credit risk for cash and cash equivalents, derivative assets and financial assets at FVOCI 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 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 monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The Group is not subject to externally imposed capital requirements.

## 9. Financial Assets and Financial Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of 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 consolidated 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 consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018*

*Financial Assets*
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category.

*Financial Assets at FVOCI.* Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the 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 statement of changes in equity are never reclassified to profit or loss.

The Group's investments in equity instruments at FVOCI included under "Other noncurrent assets" account 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 is classified under this category.

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable before January 1, 2018*

<u>*Financial Assets*</u>
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.

The Group has no financial assets classified as HTM investments as at December 31, 2017.

*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 consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income 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 financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated 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 consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents and 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 presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated 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 consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in shares of stock included under "Other noncurrent assets" account are classified under this category.

<u>*Financial Liabilities*</u>
The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. 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 presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities 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 consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group’s liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, excluding dividends payable and statutory liabilities, and other noncurrent liabilities excluding operating lease liability, deposit for future stock subscription and retirement liabilities are included under this category.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
*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.

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

*Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018*

<u>Impairment of Financial Assets</u>
The Group recognizes allowance for impairment losses on receivables and other financial assets at amortized cost.

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 consolidated 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 consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred from other comprehensive income and recognized in the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated 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 consolidated statements of income, the impairment loss is reversed through the consolidated 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 consolidated statements of income.

Offsetting Financial Instruments

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

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments as at March 31, 2018 and December 31, 2017:

| | **March 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **₱6,206,147** | **₱6,206,147** | ₱7,044,133 | ₱7,044,133 |
| Trade and other receivables - net | **9,357,550** | **9,357,550** | 11,572,575 | 11,572,575 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **4,840** | **4,840** | 50,274 | 50,274 |
| Financial assets at FVOCI (included under "Other noncurrent assets" account) | **12,308** | **12,308** | 12,224 | 12,224 |
| Noncurrent receivables and deposits (included under "Other noncurrent assets" account) | **568,695** | **568,695** | 562,916 | 562,916 |
| **Financial Liabilities** | | | | |
| Notes payable | **6,923,076** | **6,923,076** | 8,406,924 | 8,406,924 |
| Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities) | **21,827,669** | **21,827,669** | 22,585,244 | 22,585,244 |
| Derivative liabilities (included under "Trade payables and other current liabilities" account) | **127,696** | **127,696** | 49,859 | 49,859 |
| Other noncurrent liabilities (excluding operating lease liability, deposit for future stock subscription and retirement liability) | – | – | 30,053 | 30,053 |

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 approximates 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 commodity derivatives, the fair values are determined based on quoted prices obtained from active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

*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, Trade Payables and Other Current Liabilities, and Other Noncurrent 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. In the case of other noncurrent liabilities, the carrying amount approximates the fair value as at reporting date.

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 commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures, swaps and options.

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 consolidated 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 consolidated 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 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 the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated 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 consolidated 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 consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated 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 consolidated 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 consolidated statements of changes in equity is recognized in the consolidated statement of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as at 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 consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as at 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 consolidated statements of income.

*Embedded Derivatives*
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has not bifurcated any embedded derivatives as at March 31, 2018 and December 31, 2017.

*Derivative Instruments Not Designated as Hedges*
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

*Freestanding Derivatives*
Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group.

As at March 31, 2018 and December 31, 2017, the Group has no outstanding bought and sold options covering its wheat and soybean meal requirements.

*Embedded Derivatives*
The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at March 31, 2018 and December 31, 2017, the total outstanding notional amount of such embedded currency forwards amounted to US$70.6 million and US$70.2 million, 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. As at March 31, 2018 and December 31, 2017, the net positive (negative) fair value of these embedded currency forwards amounted to (₱122.9 million) and ₱0.4 million, respectively.

For the periods ended March 31, 2018 and 2017 and December 31, 2017, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (₱167.9 million), (₱18.1 million) and ₱25.2 million, respectively.

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

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

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

**March 31, 2018**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative assets | **₱–** | **₱4,840** | **₱4,840** |
| Financial assets at FVOCI | **11,103** | **1,205** | **12,308** |
| **Financial Liabilities** | | | |
| Derivative liabilities | **–** | **127,696** | **127,696** |

December 31, 2017

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Financial Assets | | | |
| Derivative assets | ₱– | ₱50,274 | ₱50,274 |
| AFS financial assets | 9,604 | 2,620 | 12,224 |
| Financial Liabilities | | | |
| Derivative liabilities | – | 49,859 | 49,859 |

As at March 31, 2018 and December 31, 2017, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## 10. Other Matters

a. On April 5, 2018, following the SEC approval of the First Amendments (Note 1), SMC and SMFB signed a Deed of Exchange of Shares (the "Deed of Exchange") pursuant to which SMC shall transfer to SMFB all of SMC's 7,859,319,270 common shares in San Miguel Brewery Inc. and 216,972,000 common shares in Ginebra San Miguel, Inc. in exchange for 4,242,549,130 new common shares to be issued by SMFB out of the increase in its authorized capital stock (the "Share Swap Transaction"), previously approved by the Board of Directors and shareholders of the Parent Company, but still subject to the approval of the SEC.

   On April 6, 2018, the Parent Company filed with the SEC its application to increase SMFB's authorized capital stock (the "Increase") from ₱2,460.0 million consisting of 2,060,000,000 common shares with par value of ₱1.00 per share and 40,000,000 preferred shares with a par value of ₱10.00 per share, to ₱12,000.0 million consisting of 11,600,000,000 common shares with a par value of ₱1.00 per share and 40,000,000 preferred shares with a par value of ₱10.00 per share, as well as amend SMFB's Articles of Incorporation accordingly. An execution copy of the Deed of Exchange was submitted in support of the application for Increase, which is pending with the SEC to date. Only upon the approval by the SEC of the Increase will the Share Swap Transaction be completed.

b. On May 9, 2018, the Parent Company's BOD declared cash dividends to all common shareholders of record as at May 24, 2018 amounting to ₱0.20 per share payable on June 8, 2018. SMFB's BOD likewise declared on May 9, 2018 cash dividends to all preferred shareholders of record as at May 24, 2018 amounting to ₱14.14225 per share payable on June 13, 2018.

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

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

e. Certain accounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

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

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

h. 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, except for Note 34 (d) of the 2017 Audited Consolidated Financial Statements that remain outstanding as at March 31, 2018. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

i. 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 period ended March 31, 2018.

j. Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality on the interim operations of the Parent Company's other businesses are not material.

k. 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 at March 31, 2018. These consist mainly of expansion-related projects and fixed asset acquisitions. Also included are the replacements and major repairs of fixed assets needed for normal operations of the businesses. These projects will be carried forward to the next quarter until completion. The fund to be used for these projects will come from available cash, and short-term and long-term loans.

**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 consolidated 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 March 31, 2018 (with comparative figures as at December 31, 2017 and for the period ended March 31, 2017). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 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.

## I. FINANCIAL PERFORMANCE

### 2018 vs 2017

The Group registered double-digit revenue growth of 11.9% at P29.8 billion for the first quarter of 2018 on the back of the good performance of the Agro-Industrial and Branded Value-Added businesses. Increased sales volume and favorable chicken and pork prices drove revenue growth.

Gross profit grew by 5% on account of higher revenues and improved operational efficiencies, tempered by double-digit increase in costs of major raw materials for feeds, processed meats and dairy.

Selling and administrative expenses went up by 5% mainly due to increased logistics and manpower costs. The Group's effort to expand distribution coverage and improve customer servicing resulted in higher warehouse rental, hauling, trucking and other related services. Pre-operating expenses, in line with the Group's expansion projects, likewise, contributed to the increase in selling and administrative expenses.

Interest expense and other financing charges rose by 13% due to higher documentary stamp tax rate effective January 1, 2018 imposed on loan availments in the first quarter of 2018, in accordance with the revised revenue regulations of the Bureau of Internal Revenue.

Lower gain on sale of property and equipment was recognized on assets disposed in the first quarter of 2018 compared to same period in 2017.

Higher marked-to-market losses on the Group's importations on account of Philippine Peso depreciation against other foreign currencies resulted in an increase in other charges - net, and consequently caused income before income tax and net income to drop versus 2017 level by 3% and 7%, respectively.

Income tax expense increased by 7% mainly due to higher taxable income of a domestic subsidiary.

Net income attributable to equity holders of both the Parent Company and non-controlling interests decreased by 6% and 64%, respectively, in proportion with the results of the business operations.

***Business Highlights:***

*Agro-Industrial*

Agro-Industrial, comprising of San Miguel Foods, Inc.'s (SMFI) Poultry and Fresh Meats, and Feeds businesses, contributed P21.0 billion to the Group's total revenues, with growth of 12% compared to first quarter of 2017. Operating income increased by 1% as growth was tempered by higher costs of certain major raw materials for feeds.

Revenue of the combined Poultry and Fresh Meats business went up by 13% driven by higher volume and better selling prices. Demand outpaced supply growth allowing the prices of chicken and fresh meats to maintain their current levels for the past few months.

The Feeds business, meanwhile, posted revenue growth of 11% as sales volume increased across all feed types.

*Branded Value-Added*

Branded Value-Added, composed of The Purefoods-Hormel Company, Inc. (“PF-Hormel”), Magnolia, Inc. (“Magnolia”) and San Miguel Super Coffeemix Co., Inc. (SMSCCI), contributed P6.9 billion to the Group’s total revenues, 17% higher than last year’s level. Operating income, however, was 2% lower compared to the first three months of March 2017 due to the double-digit increase in prices of major raw materials for dairy and processed meats, as well as pre-operating administrative expenses related to expansion project of PF-Hormel.

Processed Meats business under PF-Hormel registered revenue growth of 18% on the back of increased volume in major sales channels and the strong performance of core brands, while growing the mid-priced product segment.

Dairy, Spreads and Biscuits business under Magnolia grew revenue by 16% due to higher sales volume as well as price increases implemented to cushion the impact of rising costs of major raw materials.

Coffee business under SMSCCI posted 3% revenue increase.

*Milling*

Given the aggressive pricing strategies engaged by the industry players, volume achievement of the Company’s Flour Milling business under San Miguel Mills, Inc. (SMMI) was challenged, thus, resulting in lower revenue and operating income versus same period in 2017.

*Others*

The improvement in the combined revenue and operating income of the Company’s international operations in Indonesia and Vietnam versus 2017 level is attributed to the Vietnam subsidiary’s double-digit revenue and operating income growth.

**2017 vs 2016**

The Group’s consolidated revenues for the first quarter of 2017 reached P26.7 billion, 3% increase over the same period in 2016 on account of the good performance of the Poultry and Fresh Meats, and Processed Meats businesses. Driving revenue growth were increased volume and better selling prices of chicken, pork and processed meats products. The growth, however, was tempered by the continuous decline in basic flour’s selling prices, the drop in hog feeds due to the contraction of backyard hog raisers and the dip in sales volume of cheese and spreads on account of high trade inventory at the start of 2017. Further, first quarter 2016 revenues included election spending.

Despite double-digit increase in prices of major raw materials of the Branded Value-Added business, the Group’s consolidated cost of sales posted a minimal increase of 1% versus 2016 given lower cost to produce and favorable raw material prices for Agro-Industrial and Milling businesses. This, combined with increased revenues, enabled gross profit growth of 10%.

Selling and administrative expenses grew by 7% mainly due to increased logistics costs. The Group’s effort to expand distribution coverage and improve customer servicing resulted in higher warehouse rental, hauling, trucking and other related services.

Interest income decreased by 24% due to the decline in the average level of money market placements and lower short-term money market interest rates versus 2016.

Gain on sale of property and equipment was up by 35% as higher one-time gain was recognized on assets disposed in the first quarter of 2017 compared to same period in 2016.

Other charges - net went up by 80% mainly due to the marked-to-market losses on the Group's importations as a result of the Philippine Peso depreciation against other foreign currencies.

The confluence of the above factors registered for the Group a P2.0 billion income before income tax for the first three months of 2017, 15% higher than same period in 2016.

The overall good performance of the Group yielded a consolidated net income growth of 20% versus 2016, at P1.5 billion for the first quarter of 2017.

Net income attributable to equity holders of the Parent Company was up by 21% due to better combined performances of subsidiaries where SMPFC holds significant ownership.

***Business Highlights:***

*Agro-Industrial*

Agro-Industrial, comprised of SMFI's Poultry and Fresh Meats, and Feeds businesses, contributed a total of P18.7 billion to the Group's total revenues, 2% higher compared to same period in 2016. Operating income grew double-digit due to increased chicken volume coupled with better selling prices of chicken and pork products, lower cost to produce resulting from improved operational efficiencies and lower prices of certain major raw materials.

Revenue of the combined Poultry and Fresh Meats business of SMFI went up by 4% versus 2016 level. Despite industry's temporary tightness in broiler supply, the business was able to increase chicken sales volume at better selling prices. Improved selling prices of pork likewise contributed to revenue increase.

The Feeds business of SMFI, on the other hand, posted revenue at par with 2016. Hog feeds volume, which accounts for a significant portion of total Feeds business revenue, was affected by the contraction of the backyard hog raising market.

*Branded Value-Added*

Total Branded Value-Added business' revenue registered at P5.9 billion, a 3% increase versus same period in 2016. Combined operating income, however, was lower than 2016 due to the double-digit increase in prices of major raw materials such as anhydrous milk fat, buttermilk powder, oils, imported beef and pork fat.

PF-Hormel's Processed Meats business recorded revenue growth of 8% on the back of better sales mix and increased volume in all trade channels.

Revenue and volume of the Company's Dairy, Spreads and Biscuits business under Magnolia declined by 3% as a result of high trade inventory at the start of 2017.

Meanwhile, intense competition prevented the Coffee business under SMSCCI to exceed 2016's volume and revenue.

*Milling*

The performance of the Company's Flour Milling business under SMMI remained affected by the industry-wide continuing decline in basic flour selling prices as market players resorted to price rollbacks to fight new entrants and lower-priced imported flour. The drop in basic flour's selling prices weighed down the increase in sales volume, thus, growing revenue level by only 4% and resulting in margin squeeze that led to the decline in operating income from same period in 2016.

*Others*

Combined revenue of the Company's foreign operations in Indonesia and Vietnam grew by 11% versus 2016. Vietnam continued to register operating income growth with the rationalization of its non-profitable product lines. Indonesia, on the other hand, posted operating loss largely on account of lower revenue as market demand softened.

## II. FINANCIAL POSITION

Consolidated financial position of the Group remained strong. Current and debt to equity ratios were stable at 1.34:1 and 0.64:1, respectively, as at March 31, 2018.

The slight decline in total assets from P81.9 billion to P80.5 billion was mainly due to lower trade and other receivables and decreased inventories. Total equity, on the other hand, went up from P48.1 billion to P49.0 billion on account of the net income for the first three months of 2018, partly reduced by the cash dividends declared to all common and preferred shareholders of the Company.

Below were the major developments in the first quarter of 2018:

REPORTING ENTITY

On January 18, 2018, the stockholders of the Company, in its special stockholders meeting, approved the following corporate actions: (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 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 by SMPFC from SMC of its 7,859,319,270 common shares in San Miguel Brewery Inc. (SMB) and 216,972,000 common shares in Ginebra San Miguel, Inc. (GSMI) (collectively, the "Exchange Shares") and the issuance by SMPFC 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 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.

The SEC approved the First Amendments on March 23, 2018.

*Analysis of Financial Position Accounts*

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

Cash and cash equivalents declined by 12% as funds were used to pay the Group's suppliers and settle matured bank loans.

The collection of peak season sales made in December 2017 and the Group's continued effort to improve receivables' days level resulted in 19% drop in trade and other receivables - net. Proceeds from these collections were similarly used to partly pay-off matured bank borrowings and third party suppliers, thus, the 18% and 4% reduction in notes payable and trade payables and other current liabilities, respectively.

Current biological assets grew by 6% on account of the purposive volume build-up of live broiler grown to support expected higher demand for chicken.

Prepaid expenses and other current assets dropped by 20% as input taxes recognized from December 2017 transactions with third party service providers were applied against output taxes payable in the first quarter of 2018.

Property, plant and equipment - net went up by 8% on account of the Group’s ongoing expansion projects.

The reversal of certain deferred tax benefit provisions resulted in 7% drop in deferred tax assets.

Other noncurrent assets increased by 5% mainly on account of the accumulated creditable input taxes on capital expenditures of the Group.

Income tax payable was 36% higher versus 2017 year-end balance due to settlement of the Group’s 2017 income tax liability in April 2018, in addition to the Group’s income tax liability for the first quarter of 2018.

The reversal of a deferred tax liability provision in the first three months of 2018 resulted in a 7% drop in deferred tax liabilities.

The recognition of pension expense for the first quarter of 2018 resulted in a 5% increase in other noncurrent liabilities.

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

The collection of peak season sales made in December 2016 and the Group’s continued effort to improve receivables’ days level resulted in 34% drop in trade and other receivables - net and corresponding 33% increase in cash and cash equivalents.

The purposive increase in volume of live broiler grown, to support anticipated demand requirements in 2017, resulted in 7% surge in current biological assets.

Prepaid expenses and other current assets was 14% lower versus year-end 2016 given higher amount of input taxes resulting from increased level of transactions with third party service providers in December 2016. These, in turn, were applied against output taxes payable in the first quarter of 2017.

The Group’s expansion projects increased property, plant and equipment - net by 15%.

The reversal of deferred tax asset provisions resulted in a 10% drop in deferred tax assets.

Other noncurrent assets increased by 19% due to the increase in non-trade receivables.

Settlement of notes payable resulted in reduction by 25%.

The 8% increase in trade payables and other current liabilities was due to higher volume of transactions with third party suppliers.

Income tax payable was 46% higher versus 2016 year-end balance on account of the Group’s 2016 income tax liability settled in April 2017, in addition to the Group’s income tax liability for the first quarter of 2017.

Other noncurrent liabilities declined by 10% due to payment of retirement contributions by certain domestic subsidiaries.

Unappropriated retained earnings increased by 6% on account of the Group’s net income for the period, net of the cash dividends paid.

## III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| | March 31 | |
|---|---|---|
| | Unaudited 2018 | Unaudited 2017 |
| | *(in Millions)* | |
| Net cash flows provided by operating activities | P4,369.1 | P7,885.8 |
| Net cash flows used in investing activities | (3,157.8) | (3,642.2) |
| Net cash flows used in financing activities | (2,046.0) | (1,771.4) |

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:

| | March 31 | |
|---|---|---|
| | Unaudited 2018 | Unaudited 2017 |
| | *(in Millions)* | |
| Acquisitions of property, plant and equipment | (P2,262.6) | (P2,901.6) |
| Increase in noncurrent biological assets and other noncurrent assets | (895.3) | (745.9) |
| Proceeds from sale of property and equipment | 0.1 | 5.3 |

Net cash used in financing activities consist of the following:

| | March 31 | |
|---|---|---|
| | Unaudited 2018 | Unaudited 2017 |
| | *(in Millions)* | |
| Availments of notes payable | P29,677.8 | P31,778.8 |
| Payments of notes payable | (31,166.0) | (33,087.0) |
| Cash dividends paid | (545.3) | (463.2) |
| Payment of stock transaction cost | (12.5) | - |

The effect of exchange rate changes on cash and cash equivalents amounted to (P3.3 million) and (P0.6 million) on March 31, 2018 and 2017, respectively.

## IV. KEY PERFORMANCE INDICATORS

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

| KPI | Unaudited<br>March 2018 | Audited<br>December 2017 |
|---|---|---|
| Liquidity:<br>Current Ratio | 1.34 | 1.36 |
| Solvency:<br>Debt to Equity Ratio | 0.64 | 0.70 |
| Asset to Equity Ratio | 1.64 | 1.70 |
| Profitability:<br>Return on Average Equity Attributable to Equity Holders of the Parent Company | 17.86% | 19.78% |
| Interest Rate Coverage Ratio | 65.18 | 100.75 |

| KPI | Unaudited<br>Period Ended<br>March 2018 | Unaudited<br>Period Ended<br>March 2017 |
|---|---|---|
| Operating Efficiency:<br>Volume Growth | 9.72% | 2.42% |
| Revenue Growth | 11.86% | 2.62% |
| Operating Margin | 7.24% | 7.76% |

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

| KPI | Formula |
|---|---|
| Current Ratio | $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Debt to Equity Ratio | $\dfrac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$ |
| Asset to Equity Ratio | $\dfrac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$ |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | $\dfrac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$ |
| Interest Rate Coverage Ratio | $\dfrac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$ |
| 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. (formerly San Miguel Pure Foods Company Inc.) AND SUBSIDIARIES

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

## FINANCIAL SOUNDNESS INDICATORS

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

| KPI | Unaudited March 2018 | Audited December 2017 |
|---|---|---|
| Liquidity:<br>Current Ratio | 1.34 | 1.36 |
| Solvency:<br>Debt to Equity Ratio | 0.64 | 0.70 |
| Asset to Equity Ratio | 1.64 | 1.70 |
| Profitability:<br>Return on Average Equity Attributable to Equity Holders of the Parent Company | 17.86% | 19.78% |
| Interest Rate Coverage Ratio | 65.18 | 100.75 |

| KPI | Unaudited Period Ended March 2018 | Unaudited Period Ended March 2017 |
|---|---|---|
| Operating Efficiency:<br>Volume Growth | 9.72% | 2.42% |
| Revenue Growth | 11.86% | 2.62% |
| Operating Margin | 7.24% | 7.76% |

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

| KPI | Formula |
|---|---|
| Current Ratio | $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Debt to Equity Ratio | $\dfrac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$ |
| Asset to Equity Ratio | $\dfrac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$ |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | $\dfrac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$ |
| Interest Rate Coverage Ratio | $\dfrac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$ |
| 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. *(Formerly San Miguel Pure Foods Company Inc.)* AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
AS AT MARCH 31, 2018

## I. AGING OF ACCOUNTS RECEIVABLE

| Type of Receivable: | Total | Current | 1-30 days | 31-60 days | 61-90 days | Over 90 days |
|---|---|---|---|---|---|---|
| A. Trade | ₱8,888,476,573.25 | ₱5,366,267,259.70 | ₱1,484,207,892.87 | ₱355,304,163.86 | ₱252,860,194.90 | ₱1,429,837,061.92 |
| Less: Allowance | 480,252,712.51 | - | - | - | - | 480,252,712.51 |
| Net Trade Receivable | 8,408,223,860.74 | 5,366,267,259.70 | 1,484,207,892.87 | 355,304,163.86 | 252,860,194.90 | 949,584,349.41 |
| B. Non-Trade | 1,216,073,214.83 | 214,555,137.80 | 148,080,922.60 | 67,823,224.00 | 146,656,327.54 | 638,957,602.89 |
| Less: Allowance | 266,746,977.66 | - | - | - | - | 266,746,977.66 |
| Net Non-Trade Receivable | 949,326,237.17 | 214,555,137.80 | 148,080,922.60 | 67,823,224.00 | 146,656,327.54 | 372,210,625.23 |
| Net Receivables | ₱9,357,550,097.91 | ₱5,580,822,397.50 | ₱1,632,288,815.47 | ₱423,127,387.86 | ₱399,516,522.44 | ₱1,321,794,974.64 |

## II. Accounts Receivable Description

| | Type of Accounts Receivable: | Nature/Description | Collection Period |
|---|---|---|---|
| a. | Trade Receivables | Sales of fresh and processed meats, poultry, feeds, flour, breadfill, dairy-based products, desserts, flour mixes, specialty oils, snacks and condiments, and importation and marketing of coffee and coffee-related products | |
| | | San Miguel Foods, Inc. and subsidiary | 41 days |
| | | San Miguel Mills, Inc. and subsidiaries | 25 days |
| | | Magnolia, Inc. and subsidiaries | 60 days |
| | | PT San Miguel Pure Foods Indonesia | 40 days |
| | | San Miguel Pure Foods International Limited and subsidiary | 33 days |
| | | San Miguel Super Coffeemix Co., Inc. | 66 days |
| | | The Purefoods-Hormel Company, Inc. | 53 days |
| b. | Non-Trade Receivables | Consists mainly of: | |
| | | 1. Advances to contract growers and breeders | Upon harvest of marketable broilers and hogs/ Upon harvest of eggs and fully grown parent stocks |
| | | 2. Receivables from truckers and toll partners | Upon demand or not over 60 days |
| | | 3. Insurance Claims | 30 days from the date of offer settlement |

## III. Normal Operating Cycle

| | |
|---|---|
| San Miguel Foods, Inc. and subsidiary | 126 days |
| San Miguel Mills, Inc. and subsidiaries | 141 days |
| Magnolia, Inc. and subsidiaries | 152 days |
| PT San Miguel Pure Foods Indonesia | 105 days |
| San Miguel Pure Foods International Limited and subsidiary | 72 days |
| San Miguel Super Coffeemix Co., Inc. | 141 days |
| The Purefoods-Hormel Company, Inc. | 155 days |