CR08048-2017

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   - (●) Preliminary Information Statement
   - ( ) Definitive Information Statement
2. Name of Registrant as specified in its charter
   SAN MIGUEL PURE FOODS COMPANY INC.
3. Province, country or other jurisdiction of incorporation or organization
   METRO MANILA, PHILIPPINES
4. SEC Identification Number
   11840
5. BIR Tax Identification Code
   000-100-341-000
6. Address of principal office
   23/F, THE JMT CORPORATE CONDOMINIUM, ADB AVENUE, ORTIGAS CENTER, PASIG CITY, METRO MANILA
   Postal Code
   1605
7. Registrant's telephone number, including area code
   (632) 317-5000
8. Date, time and place of the meeting of security holders
   January 18, 2018, at 2:00 P.M., Executive Dining Room, 2nd Floor, San Miguel Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.
9. Approximate date on which the Information Statement is first to be sent or given to security holders
   Dec 27, 2017
10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor
    N/A
    Address and Telephone No.
    N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common (PF)	166,667,096
Preferred (PFP2)	15,000,000

13. 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

San Miguel Pure Foods Company, Inc.
PF

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting
References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	Jan 18, 2018
Type (Annual or Special)	Special
Time	2:00 P.M.
Venue	Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila
Record Date	Nov 24, 2017

Inclusive Dates of Closing of Stock Transfer Books

Start Date	Nov 25, 2017
End date	Nov 29, 2017

Other Relevant Information

Please see attached Preliminary Information Statement of SMPFC filed with the Securities and Exchange Commission on November 23, 2017.

Filed on behalf by:

Name	Zenaida Postrado
Designation	VP & Chief Finance Officer

SEC COPY

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 317-5450

Company Telephone Number

Preliminary Information Statement

Month Day

FORM TYPE: 2 0 - I S

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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SAN MIGUEL PURE FOODS COMPANY INC.

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
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MARKET REGULATION DEPT.
BY: Sheryl TIME: 3:44

NOTICE OF SPECIAL MEETING
OF STOCKHOLDERS
January 18, 2018

The Annual Meeting of the Stockholders of San Miguel Pure Foods Company Inc. will be held on **Thursday, January 18, 2018**, at **2:00 P.M.** at the **Executive Dining Room, 2nd Floor, San Miguel Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City**.

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the following amendments to the Articles of Incorporation:
   a. Change/expansion of the primary purpose
   b. Change of the corporate name
   c. Reduction of par value of common shares and the delegation to management of the approval of the mechanics for the implementation of the stock split
   d. Denial of pre-emptive rights for issuances or dispositions of all common shares
3. Approval of increase in authorized capital stock (the "Increase") and the amendment to the Articles of Incorporation to reflect the Increase
4. Approval of the acquisition of the common shares of San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI) from San Miguel Corporation (SMC) and issuance of the Company's shares from the Increase, to SMC as consideration for those shares (the "Share Swap Transaction")
5. Approval of tender offer for SMB and GSMI common shares held by minority shareholders, if required in connection with the Share Swap Transaction
6. Approval to list on the Philippine Stock Exchange the additional shares resulting from the reduction of par value of shares and the shares to be issued to SMC under the Share Swap Transaction
7. Other Matters
8. Adjournment

The rationale and explanation of each relevant Agenda item requiring shareholder approval may be found in the succeeding two pages of this Notice.

The deadline for submission of proxies is on **January 4, 2018** at the office of the Corporate Secretary. For corporations, proxies must be accompanied by its corporate secretary's certificate setting out the authority of the particular corporate officer to represent the corporation in the meeting. A sample proxy format is included in this notice and is available for download from the Company's website. Proxies need not be notarized. Validation of proxies will be on **January 11, 2018** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines. For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 12:00 P.M. and the registration booths will be closed at 2:00 P.M.

ALEXANDRA BENGSON TRILLANA
Corporate Secretary

RATIONALE AND EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDER APPROVAL

Amendments to the Articles of Incorporation on the primary purpose, corporate name, reduction in par value of common shares (including delegation to management of the approval of the mechanics for the implementation of the stock split) and denial of pre-emptive rights for issuances or dispositions of all common shares

The approval of the stockholders will be sought for the amendment of the Articles of Incorporation to (a) change/expand the primary purpose of the Company to include the beverage business, (b) change the corporate name of the Company to "San Miguel Food and Beverage, Inc.", (c) reduce the par value of the Company's common shares from P10.00 per share to P1.00 per share, and (d) deny pre-emptive rights for issuances or dispositions of all common shares. The said amendments are explained in detail in the Definitive Information Statement sent together with this Notice of Meeting (see *Primary Purpose of the Company*, *Corporate Name of the Company*, *Reduction of Par Value of Common Shares* and *Denial of Pre-emptive Rights to Issuances or Dispositions of Common Shares*, as well as *Amendment to Charter, By-laws and Other Documents*).

Stockholders will vote on separate resolutions approving and ratifying the proposals to:

a. Change/expand the primary purpose of the Company to include the beverage business and amend Article II of the Articles of Incorporation accordingly;
b. Change the corporate name of the Company to "San Miguel Food and Beverage, Inc." formerly "San Miguel Pure Foods Company Inc." and amend Article I of the Articles of Incorporation accordingly;
c. Reduce the par value of common shares to P1.00 per share, including the delegation to management of the approval of the mechanics for the implementation of the stock split, and amend Article VII of the Articles of Incorporation accordingly; and
d. Deny pre-emptive rights for issuances or dispositions of all common shares and amend Article VII of the Articles of Incorporation accordingly.

Increase in authorized capital stock and the amendments to the Articles of Incorporation to reflect such increase

The approval of the stockholders will be sought for the increase in authorized capital stock of the Company by P9,540,000,000.00 comprised of 9,540,000,000 common shares with a par value of P1.00 per share, and the amendment of the Articles of Incorporation to reflect the increase, as explained in detail in the Definitive Information Statement sent together with this Notice of Meeting (see *Increase in Authorized Capital Stock* and *Amendment to Charter, By-laws and Other Documents*).

Stockholders will vote on a resolution approving and ratifying the proposal to increase the Company's authorized capital stock to P12,000,000,000.00, comprised of 11,600,000,000 common shares with a par value of P1.00 per share and 40,000,000 preferred shares with a par value of P10.00 per share, and amend Article VII of the Articles of Incorporation accordingly.

Acquisition of SMB and GSMI shares from SMC and the issuance of the Company's shares from the increase in its authorized capital stock, to SMC as consideration for those shares (the "Share Swap Transaction")

The approval of the stockholders will be sought for the acquisition by the Company of all of SMC's 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI, and the issuance by the Company of 4,242,549,130 new common shares from the increase in its authorized capital stock, to SMC as consideration for those shares, as explained in detail in the Definitive Information Statement sent together with this Notice of Meeting (see *Share Swap Transaction*).

Stockholders will vote on a resolution approving and ratifying the proposal to acquire 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI from SMC, with the combined value amounting to P336,349,294,992.60, in exchange for 4,242,549,130 common shares to be issued by the Company out of the increase in its authorized capital stock as consideration for those shares.

Tender offer for SMB and GSMI shares held by minority shareholders, if required in connection with the Share Swap Transaction

The approval of the stockholders will be sought for the conduct by the Company of a tender offer for SMB and GSMI shares held by minority shareholders, if required in connection with the Share Swap Transaction, and pursuant to the provisions of applicable law and regulations, as explained in detail in the Definitive Information Statement sent together with this Notice of Meeting (see *Tender Offer for SMB and GSMI Shares Held by Minority Shareholders*).

Stockholders will vote on a resolution approving and ratifying the proposal for the Company to conduct a tender offer for the remaining shares in SMB and GSMI after the Share Swap Transaction, if required and in accordance with applicable law and regulations.

Approval to list on the PSE the additional shares resulting from the reduction of par value of shares and the shares to be issued to SMC under the Share Swap Transaction

The approval of the stockholders will be sought for the listing on the PSE of the additional issued common shares resulting from the reduction of par value of common shares and the common shares to be issued to SMC under the Share Swap Transaction, as explained in detail in the Definitive Information Statement sent together with this Notice of Meeting (see *Listing on the PSE of the Additional Shares Resulting from the Reduction of Par Value of Shares and the New Shares to be Issued to SMC*).

Stockholders will vote on a resolution approving and ratifying the proposal for the Company to list (a) the additional 1,537,873,686 issued common shares resulting from the reduction of par value of common shares, and (b) the new 4,242,549,130 common shares to be issued by the Company to SMC (out of the increase in its authorized capital stock) pursuant to the Share Swap Transaction.

Further, the minority stockholders will vote on a resolution waiving the conduct of a rights or public offering of the said new 4,242,549,130 common shares.

Other Matters

The Chairman will open the floor for stockholders to present any other matter or business, for consideration. No resolution, other than the resolutions explained in this Notice of meeting and Definitive Information Statement attached hereto, will be submitted for voting by the shareholders.

Thereafter, the Chairman will entertain a motion to adjourn the meeting.

PROXY

The undersigned stockholder of SAN MIGUEL PURE FOODS COMPANY INC. (the "Company"), hereby appoints ______________________________ or in his/her absence, the Chairman of the Meeting, as attorney and proxy, to represent and vote all shares registered in his/her/its name at the annual meeting of the stockholders of the Company scheduled on Wednesday, **January 18, 2018, 2:00 p.m.** at the **Executive Dining Room, 2/F San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City**, Metro Manila, Philippines, and any of its adjournment(s), as fully as the undersigned could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below.

PROPOSAL	ACTION			
	FOR	AGAINST	ABSTAIN	FULL DISCRETION OF PROXY
1. Approval of the following amendments to the Articles of Incorporation: a. Change/expansion of the primary purpose b. Change of the corporate name c. Reduction of par value of common shares and the delegation to management of the approval of the mechanics for the implementation of the stock split d. Denial of pre-emptive rights for issuances or dispositions of all common shares				
2. Approval of increase in authorized capital stock (the "Increase") and the amendment to the Articles of Incorporation to reflect the Increase				
3. Approval of the acquisition of San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI) shares from San Miguel Corporation (SMC) and issuance of the Company's shares from the Increase, to SMC as consideration for those shares (the "Share Swap Transaction")				
4. Approval of tender offer for SMB and GSMI shares held by minority shareholders, if required in connection with the Share Swap Transaction				
5. Approval to list on the PSE the additional issued shares resulting from the reduction of par value of shares and the shares to be issued to SMC under the Share Swap Transaction				

Signed this _____ day of __________________, at ___________________.

______________________________ ______________________________

PRINTED NAME OF STOCKHOLDER SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **JANUARY 4, 2018**. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

____√___ Preliminary Information Sheet
________ Definitive Information Sheet

2. Name of Registrant as specified in its charter:

SAN MIGUEL PURE FOODS COMPANY INC.

3. Province, country and other jurisdiction of incorporation or organization:

Metro Manila, Philippines

4. SEC Identification Number: **11840**

5. BIR Tax Identification Code: **000-100-341-000**

6. Address of principal office — Postal code

The JMT Corporate Condominium, 23rd Floor — **1605**
ADB Avenue, Ortigas Center, Pasig City
Metro Manila

7. Registrant's telephone number, including area code: **(632) 317-5000**

8. Date, time and place of the meeting of security holders:

Date:	**JANUARY 18, 2018, THURSDAY**
Time:	**2:00 P.M.**
Place:	**Executive Dining Room, 2nd Floor,** **San Miguel Head Office Complex,** **No. 40 San Miguel Avenue, Mandaluyong City** **Metro Manila**

9. Approximate date at which the Information Statement is to be first sent or given to security holders:

DECEMBER 27, 2017

10. Name of Person Filing the Statement: **San Miguel Pure Foods Company Inc.**
Address: **The JMT Corporate Condominium, 23rd Floor**
ADB Avenue, Ortigas Center, Pasig City 1605
Telephone Number: **(02) 317-5000**

11. Securities registered pursuant to Sections 8 and 12 of the SRC:

Title of Each Class	Issued and Outstanding
(As of September 30, 2017)	
Common shares	166,667,096
Preferred shares	15,000,000
	181,667,096

Total Liabilities as of December 31, 2016 (in '000) P 23,828,266

12. Are any or all of Registrant's securities listed on a Stock Exchange?

__√__ Yes _____ No

If yes, disclose the name of such Stock Exchange and the class of securities listed thereon:

Philippine Stock Exchange - Common and Preferred (series 2) shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

The Annual Stockholders' Meeting of San Miguel Pure Foods Company Inc. (SMPFC or the "Company") shall be held as follows:

Date:	January 18, 2018, Thursday
Time:	2:00 P.M.
Place:	Executive Dining Room, 2nd Floor, San Miguel HOC, No. 40 San Miguel Avenue, Mandaluyong City

The complete mailing address of the principal office of the Company is at the 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City 1605, Metro Manila, Philippines.

Approximate date on which the Information Statement and form of proxy are first to be sent or given to security holders

December 27, 2017

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Nevertheless, should you be unable to attend the meeting but would like to be represented thereat, please submit your proxies to the Office of the Corporate Secretary, 22nd Floor The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City 1605. A sample form of a proxy is attached to this report and may also be obtained at the Company's website at www.sanmiguelpurefoods.com.ph. For stockholders that are partnerships, corporations or associations, please submit with the proxy a sworn certification of your resolutions evidencing authority of your designated proxy and signatories.

The deadline for submission of proxies is on January 4, 2018. Validation of proxies will be on January 11, 2018 at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City.

Dissenters' Right of Appraisal

Under Title X of the Corporation Code, stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action: amendment to the corporation's articles and by-laws that has the effect of changing and restricting the rights of any shareholder or class of shares or authorizing preferences in any respect superior to those of outstanding shares of any class; sale, lease, mortgage or other disposition of all or substantially all of the corporation's assets; merger or consolidation; investment of corporate funds in another corporation or business or for any purpose other than its primary purpose; and extension or shortening of term of corporate existence. The stockholders' right of appraisal may be exercised for a period within 30 days from the date on which the vote on the corporate action was taken.

Pursuant to the foregoing, shareholders who shall vote against the proposals to change/expand the primary purpose of the Company, and in relation thereto for the Company to acquire San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI) shares from San Miguel Corporation (SMC), which investments are in corporations or businesses not related to the Company's current primary purpose, as set out in the ***Primary Purpose of the Company*** and ***Share Swap Transaction*** sections of this Information Statement, shall be entitled to exercise their right of appraisal for a period commencing on the date on which the proposal is approved by the shareholders as notified to the Securities and Exchange Commission (SEC) and disclosed to the Philippine Stock Exchange, Inc. (PSE), until 30 days therefrom. The fair value of the dissenting shares shall be the fair value thereof as of the day prior to the date of the approval of the proposal by the shareholders, excluding any appreciation or depreciation in anticipation of such action.

Interest of Certain Persons in Matters to be Acted Upon

No director or executive officer of the Company or any of their associates at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of September 30, 2017, the Company had the following outstanding shares of stock:

Title of Class	No. of shares outstanding
Common Shares	166,667,096
Preferred Shares (series 2)	15,000,000
	181,667,096

All stockholders of record as of **November 24, 2017** are entitled to vote at the Special Stockholders' Meeting in accordance with the ***Voting and Vote Tabulation Procedures*** section of this Information Statement. Every shareholder entitled to vote shall be entitled to one (1) vote for each share of stock in his name in the books of the Company, provided the conditions as regards payment subject to which it was issued have been complied with.

A stockholder entitled to vote at the meeting has the right in person or by proxy.

Security Ownership of Certain Record and Beneficial Owners

Owner of record of more than 5% of Company's voting[1] securities as of November 15, 2017 are as follows:

[1] *The holders of common shares have the right to vote on all matters requiring stockholders' approval. The holders of preferred (series 2) shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of articles of incorporation; adoption and amendment of by-laws; sale, lease,*

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	San Miguel Corporation[2] SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550, intermediate parent company of issuer	San Miguel Corporation	Filipino	142,279,267	78.3187%
Common	PCD Nominee Corporation[3] 37th Floor, Tower One, Enterprise Center Ayala Ave. corner Paseo de Roxas Ave., Makati City, no relation to issuer	Various[4]	Filipino	12,723,405	14.7552%
Preferred series 2				14,081,945	

exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation; investment of corporate funds in another corporation or business; and dissolution.

[2] *The Board of Directors of San Miguel Corporation (SMC) authorizes any one Group A signatory or any two Group B signatories to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, Virgilio S. Jacinto, Joseph N. Pineda and Sergio G. Edeza. The Group B signatories of SMC are Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Lorenzo G. Formoso III , Virgilio S. de Guzman, Almira C. Dalusung, Ma. Raquel Paula G. Lichauco and Casiano B. Cabalan Jr.*

[3] *Registered owner of shares held by participants in the Philippine Central Depository, Inc.,* a *private company organized to implement an automated book entry of handling securities in the Philippines.*

[4] *None of the holders of the Company's common or preferred (series 2) shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's shares.*

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	PCD Nominee Corporation[5] 37th Floor, Tower One, Enterprise Center Ayala Ave. corner Paseo de Roxas Ave., Makati City, no relation to issuer	Various[6]	Non-Filipino	9,096,596	5.0556%
Preferred series 2				87,855	

The following are the number of shares of the Company's capital stock, all of which are voting shares with the exception of the preferred (series 2) shares, owned of record by the Chairman, directors, key officers of the Company and nominees for election as director as of November 15, 2017:

Title of Class	Name of Owner	Amount and Nature of Ownership	Citizenship	Total No. of Shares
Common	Eduardo M. Cojuangco, Jr.	1 (Direct)	Filipino	1 (0.00%)
Common	Ramon S. Ang	1 (Direct)	Filipino	1 (0.00%)
Common	Francisco S. Alejo III	1 (Direct)	Filipino	53,001 (0.03%)
		43,000 (Beneficial)		
Preferred S2		10,000 (Beneficial)		
Common	Menardo R. Jimenez	1 (Direct)	Filipino	1 (0.00%)
Common	Rolando L. Macasaet	1 (Direct)	Filipino	1 (0.00%)
Common	Mario C. Garcia	1 (Direct)	Filipino	1 (0.00%)
Common	Carmelo L. Santiago	1 (Direct)	Filipino	1 (0.00%)
Common	Minita V. Chico-Nazario	1 (Direct)	Filipino	1 (0.00%)
Common	Ricardo C. Marquez	1 (Direct)	Filipino	1 (0.00%)
Common	Zenaida M. Postrado	500 (Beneficial)	Filipino	10,500 (0.01%)
Preferred S2		10,000 (Beneficial)		
Preferred S2	Alexandra Bengson Trillana	1,000 (Beneficial)	Filipino	1,000 (0.00%)

The aggregate number of shares owned of record by the Chairman, key officers and directors as a group as of November 15, 2017 is 64,509 shares or approximately 0.0355% of the Company's outstanding capital stock.

The aggregate number of shares owned by all officers and directors as a group as of November 15, 2017 is 82,809 shares or approximately 0.0456% of the Company's outstanding capital stock.

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[5] *Registered owner of shares held by participants in the Philippine Central Depository, Inc.,* a *private company organized to implement an automated book entry of handling securities in the Philippines.*

[6] *None of the holders of the Company's common or preferred (series 2) shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's shares.*

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days, from options, warrants, conversion privileges or similar obligations or otherwise.

Voting Trust

There is no person holding more than 5% of the Company's voting securities under a voting trust or similar agreement.

Change in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

MATTERS FOR APPROVAL

On November 3, 2017, the Board of Directors of SMC approved the internal restructuring of the San Miguel Group of Companies to consolidate its food and beverage businesses under SMPFC (the "Restructuring"). As of September 30, 2017, SMC owns 85.37% of the total issued and outstanding common stock of SMPFC. Pursuant to the Restructuring, SMC shall transfer to SMPFC all of its (a) 7,859,319,270 SMB common shares equivalent to 51.16% of its issued and outstanding capital stock and (b) 216,972,000 GSMI common shares equivalent to 78.26% of its issued and outstanding capital stock (collectively, the "Exchange Shares"). In exchange and as payment for the Exchange Shares, SMPFC will issue to SMC 4,242,549,130 common shares of its capital stock (the "New Shares"), taking into consideration the independent valuation analysis of SMB, GSMI and SMPFC performed by ING Bank N.V., independent third party financial advisor.

Upon completion of the Restructuring, SMPFC shall be transformed into the food and beverage (F&B) holding company of SMC, with SMB and GSMI becoming subsidiaries of SMPFC. SMPFC shall own at least 51.16% of SMB and at least 78.26% of GSMI. On the other hand, the percentage ownership of SMC in the total issued and outstanding common stock of SMPFC shall increase to 95.87%.

The rationale and benefits of the Restructuring include (1) the creation of a significant consumer F&B vertical market under SMC, (2) investors in SMC will be provided a visible valuation benchmark for SMB and GSMI to support SMC's sum of parts valuation, (3) public investors will be provided direct access to SMC's F&B business via SMPFC, and (4) the substantial deepening of the trading liquidity of SMPFC and the broadening of the Company's shareholder base towards institutional and retail investors.

To implement the Restructuring, the following corporate actions were approved by the Board of Directors of SMPFC on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of the Company to include the beverage business and accordingly change its corporate name, reduce the par value of the Company's common shares and deny pre-emptive rights for issuances or dispositions of all common shares; (b) the increase in the Company's authorized capital stock and the amendment to the Articles of Incorporation to reflect such increase; (c) the acquisition of SMB and GSMI shares from SMC and issuance by the Company of New Shares to SMC as consideration for the Exchange Shares (the "Share Swap Transaction"); (d) the tender offer for SMB and GSMI shares held by minority shareholders, if required in connection with the Share Swap Transaction; and (e) the listing on the PSE of the additional issued shares resulting from the reduction of par value of shares and the New Shares to be issued to SMC under the Share Swap Transaction.

Stockholders' approval shall be sought for the foregoing corporate actions in this special stockholders' meeting.

PRIMARY PURPOSE OF THE COMPANY

The Articles of Incorporation of SMPFC, in the Second Article thereof, provides that the primary purpose for which the Company was formed is to engage in the processing, manufacture, distribution and sale of food products of every class and description.

To achieve the strategic objective of the Restructuring of transforming SMPFC into the F&B holding company of SMC, the Board of Directors approved the expansion of the primary purpose of the Company to include the engagement in the alcoholic and non-alcoholic beverage business. The change also paves the way for the acquisition by SMPFC from SMC of its shares in SMB and GSMI, both of which are engaged in the beverage business, and the issuance of New Shares to SMC as consideration for the Exchange Shares.

SMPFC is thus seeking the approval of the shareholders to change/expand the primary purpose of the Company as aforesaid, as well as amend the Second Article of its Articles of Incorporation accordingly.

Upon approval by the stockholders of this amendment and subsequently by the SEC, not only will the Company have the authority to engage in the processing, manufacture, distribution and sale of food products of every class and description, but also in the manufacture, distillation, bottling and sale of all kinds of alcoholic and non-alcoholic beverages, including without limitation beer, gin, liquor, water and water-based beverages.

CORPORATE NAME OF THE COMPANY

The Articles of Incorporation of the Company, in the First Article thereof, provides that the corporation's name shall be "San Miguel Pure Foods Company Inc."

In line with the expansion of the primary purpose of the Company, the Board of Directors approved the change in the Company's corporate name to "San Miguel Food and Beverage, Inc." to represent to the public that it is now a food and beverage corporation and thus also authorized to engage in the beverage business.

SMPFC is thus seeking the approval of the shareholders to change the corporate name of the Company as aforesaid, as well as amend the First Article of its Articles of Incorporation accordingly.

Upon approval by the stockholders of this amendment and subsequently by the SEC, the Company will be known as "San Miguel Food and Beverage, Inc.", formerly "San Miguel Pure Foods Company Inc."

REDUCTION OF PAR VALUE OF COMMON SHARES

Modification or Exchange of Securities

The Articles of Incorporation of the Company, in the Seventh Article thereof, provides that the amount of capital stock of the corporation is Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00), Philippine Currency, and said capital stock is divided into Two Hundred Six Million (206,000,000) common shares with a par value of Ten Pesos (P10.00) each, and Forty Million (40,000,000) preferred shares with a par value of Ten Pesos (P10.00) per share.

In order to make the share price of common shares more accessible to retail investors, and thereby improve trading volume and liquidity and increase retail demand for a successful follow-on offering, the Board of Directors approved the reduction of the par value of the common shares to P1.00 each share, from P10.00 each share. The reduction in par value will result in the common shares being split into ten common shares for every one common share of the authorized capital stock of the Company. The additional common shares as a result of the split will have the same features as the existing common shares, save for the par value of each share. The Board of Directors further delegated to management the approval of the mechanics for the implementation of the stock split.

In this regard, management has determined that all issued stock certificates shall remain valid, subsisting, and will continue to be honoured by the Company. In lieu of updating the stock certificates, the Company's independent stock transfer agent will instead issue new stock certificates to cover the additional shares owned by the shareholder arising from the change in par value. For example, if a stockholder currently has a stock certificate for 10 common shares with a par value of P10.00 each, that certificate shall remain valid, and the Company will automatically consider the par value of such shares as reduced to P1.00 each. However, considering that upon approval of the reduction in par value of the common shares, the stockholder should have 100 common shares with a par value of P1.00 per share, the Company will issue a new stock certificate to the stockholder for 90 shares, so that together with his old stock certificate, he will have 100 shares registered in his name, all with a par value of P1.00 per share.

SMPFC is thus seeking the approval of the shareholders to reduce the par value of the Company's common shares as aforesaid, as well as amend the Seventh Article of its Articles of Incorporation accordingly, and the delegation to management of the approval of the mechanics for the implementation of the stock split.

Upon approval by the stockholders of this amendment and subsequently by the SEC, there will be an increase in the number of common shares of the authorized capital stock of the Company, from Two Hundred Six Million (206,000,000) common shares with a par value of Ten Pesos (P10.00) each, to Two Billion Sixty Million (2,060,000,000) common shares with a par value of One Peso (P1.00) each. There will be no change, however, to the number of preferred shares.

Moreover, the effects on the capital structure of the Company will be as follows:

Issued Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	170,874,854	1,708,748,540
Preferred / PFP2	15,000,000	15,000,000

Outstanding Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	166,667,096	1,666,670,960
Preferred / PFP2	15,000,000	15,000,000

Treasury Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	4,207,758	42,077,580

Listed Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	170,874,854	1,708,748,540
Preferred / PFP2	15,000,000	15,000,000

The Company intends to list on the PSE the additional issued common shares resulting from the reduction in par value of said shares.

DENIAL OF PRE-EMPTIVE RIGHTS TO ISSUANCES OR DISPOSITIONS OF COMMON SHARES

Further to the foregoing amendment to the Seventh Article of the Company's Articles of Incorporation, the said Article currently provides that there shall be no pre-emptive rights to the issuance of common shares out of the previous increase in authorized capital stock of the Corporation from One Billion Four Hundred Sixty Million Pesos (P1,460,000,000.00) to Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00) after the issuance of any stock dividends to existing shareholders of the Corporation. This denial of pre-emptive rights and corresponding amendment to Article VII was approved in 2010 (the "2010 Denial").

In order to consolidate denials of pre-emptive rights effected in relation to common shares via previous amendments to the Articles of Incorporation and simplify the statement on such denial of pre-emptive rights, the Board of Directors approved the denial of pre-emptive rights for issuances or dispositions of any and all of the common shares, and the deletion of the 2010 Denial.

SMPFC is thus seeking the further approval of the shareholders for such denial of pre-emptive rights for issuances or dispositions of any and all of the common shares as aforesaid, as well as amend the Seventh Article of its Articles of Incorporation accordingly.

Upon approval by the stockholders of this amendment and subsequently by the SEC, the Company will be able to proceed with the issuance of New Shares to SMC as consideration for the Exchange Shares.

INCREASE IN AUTHORIZED CAPITAL STOCK

The Articles of Incorporation of the Company, in the Seventh Article thereof, currently provides that the amount of capital stock of the corporation is Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00).

The issuance by the Company of New Shares to SMC as consideration for the Exchange Shares, however, will require the increase in the Company's current authorized capital stock in order for it to have enough new common shares to accommodate such issuance. Thus, after the SEC approves the amendment to the Articles of Incorporation to reduce the par value of the Company's common shares, the Board of Directors approved to increase the authorized capital stock of the Company by Nine Billion Five Hundred Forty Million Pesos (P9,540,000,000.00) consisting of Nine Billion Five Hundred Forty Million (9,540,000,000) common shares with a par value of One Peso (P1.00) per share.

After the increase, the Company's authorized capital stock will be Twelve Billion Pesos (P12,000,000,000.00) divided into Eleven Billion Six Hundred Million (11,600,000,000) common shares with a par value of One Peso (P1.00) per share, and Forty Million (40,000,000) preferred shares with a par value of Ten Pesos (P10.00) per share.

From the increase in authorized capital stock, approximately 44% thereof or Four Billion Two Hundred Forty Two Million Five Hundred Forty Nine Thousand One Hundred Thirty (4,242,549,130) common shares with a par value of P1.00 per share will be subscribed by SMC. Subsequent to SMC's subscription, the Company will still have sufficient new common shares to conduct a subsequent follow-on share offering to comply with the minimum public ownership requirement of the SEC and PSE.

After the subscription, SMC's ownership in the Company's common shares will increase from 85.37% to 95.87%, hence, the need for such follow-on offering.

In view of the foregoing, stockholder approval is likewise sought for:

(a) the increase of the authorized capital stock of the Company after the reduction of par value of the common shares as described above, from Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00) consisting of Two Billion Sixty Million (2,060,000,000,000) common shares with par value of One Peso (P1.00) per share ***to*** TWELVE BILLION PESOS (Php12,000,000,000.00) consisting of ELEVEN BILLION SIX HUNDRED MILLION (11,600,000,000) common shares with a par value of One Peso (P1.00) per share and Forty Million (40,000,000) preferred shares with a par value of Ten Pesos (P10.00) per share, as well as amend the Seventh Article of the Company's Articles of Incorporation accordingly; and

(b) the issuance to SMC of Four Billion Two Hundred Forty Two Million Five Hundred Forty Nine Thousand One Hundred Thirty (4,242,549,130) new common shares at a par value of One Peso (P1.00) per share, to be taken out of the increase in the authorized capital stock of the Company, and shall be applied as full payment of the subscription required for such increase. In exchange and as payment for these New Shares, SMC will transfer the Exchange Shares to the Company.

The Company intends to list on the PSE the New Shares to be issued to SMC.

Upon approval by the stockholders of the increase in authorized capital stock of the Company, including the corresponding amendment to the Articles of Incorporation to reflect the increase, and subsequently by the SEC, the Company will be able to issue the New Shares to SMC as consideration for the Exchange Shares.

AMENDMENT TO CHARTER, BY-LAWS OR OTHER DOCUMENTS

At a special meeting of the Board of Directors of the Company on November 3, 2017 as earlier mentioned, the Board of Directors of the Company unanimously approved the following amendments to the Articles of Incorporation of the Company:

1. Article Second, on the primary purpose of the Company, as follows:

"SECOND: - That the purpose for which such corporation is formed, is as follows, to wit:

<u>PRIMARY PURPOSE</u>

To can, preserve, prepare, process, manufacture, pack, repack, market, distribute, ship and sell meats, fish, fruits, vegetables, cereals, and their by-products; to buy or otherwise acquire, can, preserve, process, manufacture, market, prepare for market, sell, deal in, deal with, import and export food and food products of every class and description, fresh, canned or preserved or otherwise, and all food and other preparations; <u>to manufacture fermented and malt-based beverages, particularly beer of all kinds and classes, beer yeast (cerevicina), malt extract and carbonic gas, as well as to distill, rectify, manufacture and bottle wines, spirits, essences, whiskeys, gins, liquors and other alcoholic drinks, alcohol and alcohol-based, alcohol related or allied products, water and water-based beverages, and other non-alcoholic beverages, of all kinds and classes, prepare, purchase and sell malt, barley and other cereals, flour, yeast and other products which might be used in connection with the said business or manufacture; to buy, import, sell, export, and trade in such food and beverage products, including raw materials therefor;</u> to own, acquire, pledge, buy, sell, convey, assign and transfer meats, fish, fruits, cereals, grains, foods, and vegetables and their by-products, <u>alcoholic and non-alcoholic beverages,</u> goods and merchandise, real and personal property of every kind or description, which may be incidental in carrying out the business of the corporation.

Xxx"

2. Article First, on the corporate name of the Company, as follows:

"FIRST: - That the name of the said corporation shall be the **SAN MIGUEL FOOD AND BEVERAGE, INC.** (formerly SAN MIGUEL PURE FOODS COMPANY INC.) (formerly PURE FOODS CORPORATION) (as amended on February 19, 2002)."

3. Article Seventh, on the reduction of par value of the common shares, as follows:

"SEVENTH: - That the amount of capital stock of said corporation is TWO BILLION FOUR HUNDRED SIXTY MILLION PESOS (P2,460,000,000.00), Philippine Currency, and said capital stock is divided into TWO BILLION SIXTY MILLION (2,060,000,000) common shares with a par value of ONE PESO (P1.00) each, and FORTY MILLION (40,000,000) preferred shares with a par value of TEN PESOS (P10.00) per share.

Xxx"

4. Article Seventh, on the denial of pre-emptive rights to issuances or dispositions of all common shares, as follows:

"SEVENTH: Xxx

Xxx

~~There shall be no pre-emptive rights to the issuance of common shares out of the increase in authorized capital stock of the Corporation from One Billion Four Hundred Sixty Million Pesos (P1,460,000,000.00) to Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00) after the issuance of any stock dividends to existing shareholders of the Corporation. (As amended on March 12, 2010.)~~

There shall be no pre-emptive rights to the issuance of any and all of the preferred shares. (As amended on November 3, 2010.)

There shall be no pre-emptive rights for issuances or dispositions of any and all of the common shares."

5. To be filed with the SEC after it approves the amendment to reduce the par value of common shares, Article Seventh, on the increase in authorized capital stock of the Company, as follows:

"SEVENTH: - That the amount of capital stock of said corporation is TWELVE BILLION PESOS (P12,000,000,000.00), Philippine Currency, and said capital stock is divided into ELEVEN BILLION SIX HUNDRED MILLION (11,600,000,000) common shares with a par value of ONE PESO (P1.00) each, and FORTY MILLION (40,000,000) preferred shares with a par value of TEN PESOS (P10.00) per share.

Xxx"

SHARE SWAP TRANSACTION

Authorization or Issuance of Securities Other than for Exchange; Mergers, Consolidations, Acquisitions and Similar Matters

The Share Swap Transaction involves the issuance by the Company of New Shares, comprised of 4,242,549,130 new SMPFC common shares, to SMC. As payment or in consideration for the New Shares, SMC will transfer the Exchange Shares to the Company.

In this connection, the Board of Directors approved the acquisition by the Company from SMC of the Exchange Shares, comprised of 7,859,319,270 SMB common shares and 216,972,000 GSMI common shares, and the issuance by the Company to SMC of the New Shares. The aggregate value of the Exchange Shares was fixed at Three Hundred Thirty Six Billion Three Hundred Forty Nine Million Two Hundred Ninety Four Thousand Nine Hundred Ninety Two Pesos and Sixty Centavos (Php336,349,294,992.60). This will be satisfied by the Company's issuance of New Shares to SMC out of the increase in the Company's authorized capital stock, with the issue value of Seventy Nine Pesos and Twenty Eight Centavos (Php79.28) per SMPFC common share.

The issue value was determined by management and approved by the Board of Directors taking into consideration, among others, the independent valuation analysis conducted by ING Bank, N.V., Manila Branch ("ING"), the Company's independent financial advisor, on the price per share of the Company, SMB and GSMI. ING used a discounted cash flow approach validated by trading and transaction comparables. ING is accredited by the PSE to issue fairness opinions and valuation reports for listed companies and prospective initial listing applicants of the PSE. There is no material relationship between ING or its affiliates and SMPFC or its affiliates during the past two years, nor is there any being contemplated.

San Miguel Brewery Inc. (SMB) and its subsidiaries are primarily engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes, as well as non-alcoholic beverages such as ready-to-drink tea and bottled water. SMB is the largest producer of beer in the Philippines with six production facilities strategically located across the Philippines and a highly developed distribution system with a network of dealers and serving both on-premise and off-premise outlets nationwide. SMB is a joint venture company between SMC and Kirin Holdings Company, Limited ("Kirin"), with SMC owning 51.16% and Kirin owning 48.54% of SMB's outstanding capital stock. SMB's executive office is at 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, and may be reached at telephone number (632) 632 3000.

SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB's flagship brand, *San Miguel Super Dry, San Mig Light, San Miguel Premium All-Malt, San Miguel Flavored Beer, Cerveza Negra, Red Horse, San Mig Zero, Oktoberfest Brew*, and *Gold Eagle.* SMB also exclusively distributes *Kirin Ichiban* in the Philippines. In the non-alcoholic beverage market, SMB sells *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit drink* (ready-to-drink juice), and *Magnolia Purewater* (bottled water), as well as, *Cali*, the country's only malt-based non-alcoholic drink. SMB also distributes imported *Berri* (pure juice) in the Philippines.

SMB has brewery operations in Hong Kong, China, Vietnam, Thailand, and Indonesia. Products are sold locally as well as in various export markets. In addition, SMB exports its beer products to over 50 countries, with key markets in Asia, the Middle East, Africa, North America and Australia. Exports of SMB are primarily sold under various San Miguel brands as well as under private labels.

Ginebra San Miguel, Inc. (GSMI) is engaged in the manufacture and sale of alcoholic beverages. It is one of the leaders in the Philippine liquor market with one distillery and five liquor bottling plants strategically located throughout the Philippines. GSMI is majority owned and controlled by SMC. GSMI's executive office is at the 3rd and 6th Floors of San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City 1550, Metro Manila, and may be reached at telephone number (632) 841 5100.

GSMI offers a range of liquor in the popular and economy market segments. It produces, markets and sells some of the most recognizable brands in the Philippine liquor market, including its flagship gin brand *Ginebra San Miguel, GSM Blue, GSM Blue Flavors, Ginebra San Miguel Premium Gin, Vino Kulafu, Primera Light Brandy, Antonov Vodka, and Don Enrique Mixkila.*

The primary export markets of GSMI are in areas with high concentration of Filipino communities such as the UAE, Korea, Taiwan, Vietnam, USA, Singapore, Hong Kong, Bahrain, UK, Saipan, Netherlands and Canada. GSMI also has operations in Thailand where it manufactures, sells and distributes brandy, wine and distilled spirits products both for domestic and exports markets.

There are no dividends in arrears, nor defaults in principal or interest in respect of any security of the Company or of SMB or GSMI. In relation to the implementation of the Share Swap Transaction, SMB is in the process of getting consent from the holders of certain bonds issued by it and listed on the Philippine Dealing & Exchange Corp. to allow an amendment to the terms and conditions of such bonds, thus ensuring that the Share Swap Transaction and the Restructuring will not be construed as causing a change of control of SMB.

The net sales or operating revenues, income (loss) from continuing operations, and long term debt and redeemable preferred stock of the Company, SMB and GSMI for the last two fiscal years are as follows:

	SMPFC (Php, in thousands)		SMB (Php, in thousands)		GSMI (Php, in thousands)	
	2016	2015	2016	2015	2016	2015
Sales	111,585,561	106,860,238	97,160,450	82,373,919	18,572,497	16,554,541
Income from operations	8,931,046	7,643,992	27,188,173	22,631,333	916,744	637,106
Long-term debt (including current maturities of long-term debt) net of debt issue costs	-	64,809	37,616,706	37,566,061	228,571	342,857
Preferred stock (outstanding, at redemption value/issue value)	15,000,000	15,000,000	-	-	1,000,000	1,000,000

The book value per share, cash dividends declared per share, and income (loss) per share from continuing operations of the Company, SMB and GSMI for the last two fiscal years are as follows:

	SMPFC (Php)		SMB (Php)		GSMI (Php)	
	2016	2015	2016	2015	2016	2015
Book value per share	159.82	135.35	3.10	2.56	13.88	12.86
Cash dividends declared per common	5.70	4.80	0.66	0.62	-	-

share						
Cash dividends declared per preferred share	56.56900 per PFP2 share	42.42675 per PFP2 share 20.00 per PFP share	-	-	-	-
Basic earnings (loss) per share from continuing operations	29.00	21.38	1.12	0.86	1.09	-1.44

There are no material contracts, arrangements, understanding, negotiations or transactions during the past two fiscal years between either SMB or GSMI or their respective affiliates and the Company or its affiliates.

While the Company, SMB and GSMI are all public companies, only the shares of the Company and GSMI are listed on the PSE. The following are the high and low prices of SMPFC and GSMI shares as of the date preceding the public announcement of the proposed transaction:

San Miguel Pure Foods Company Inc.				
	Common		Preferred Series 2	
	High	Low	High	Low
As of November 3, 2017	Php 308.00	Php 307.20	Php1,009.00	Php1,007.00

	Ginebra San Miguel, Inc.	
	Common	
	High	Low
As of November 3, 2017	Php 15.54	Php 15.54

The closing prices of the Company's shares as of the latest practicable trading date are as follows:

Common shares	Php 494.60	November 17, 2017
Preferred shares (series 2)	Php1,010.00	November 16, 2017

The closing prices of GSMI's shares as of the latest practicable trading date are as follows:

Common shares	Php 24.55	November 17, 2017

As SMC is the intermediate parent of the Company, the closing of the Share Swap Transaction will be the final step to achieve the objective of consolidating the food and beverage businesses of SMC under the Company, the rationale and benefits of such Restructuring are set out in the ***Matters for Approval*** section of this Information Statement.

The Company is thus seeking the further approval of the shareholders of the Share Swap Transaction.

Considering that the New Shares to be issued by the Company as payment for the Exchange Shares shall be issued out of the increase in the Company's authorized capital stock, the completion of the Share Swap

Transaction is conditioned on the approval by the SEC of the applications for the amendment of the Articles of Incorporation of the Company to (1) expand the primary purpose of the Company to include the beverages business, reduce the par value of its common shares from Php10.00 to Php1.00 per share and deny pre-emptive rights to the issuance or dispositions of all common shares (collectively, the "First Amendments"), which amendments shall be filed soon after the approval of the stockholders of such corporate actions at this special stockholders' meeting; and (2) increase the authorized capital stock of the Company by Php9,540,000,000.00 consisting of 9,540,000,000 common shares with a par value of Php1.00 per share, which amendment shall be filed after receiving the SEC's approval of the First Amendments.

Upon receipt of SEC approval for the Increase, the Company will conduct a tender offer for the remaining SMB and GSMI common shares held by minority shareholders, if required under and pursuant to the provisions of applicable law and regulations, then list on the PSE the additional issued shares resulting from the reduction of par value of the Company's common shares, as well as the New Shares. Closing will be upon the actual crossing of shares at the Exchange.

As a consequence of the closing of the Share Swap Transaction, the Company shall be transformed into the F&B holding company of SMC, with SMB and GSMI becoming subsidiaries of the Company. At least 51.16% of the issued and outstanding common shares of SMB and at least 75.78% of the issued and outstanding common shares of GSMI will be held by the Company. On the other hand, the percentage ownership of SMC in the total issued and outstanding common shares of SMPFC shall increase from 85.37% to 95.87%, with the public float of the Company accordingly decreasing from 14.60% to 4.12%. In view thereof, the Board of Directors also approved the request to the SEC and PSE for a deferment of the Company's compliance with the minimum public ownership requirement.

In this regard, the effects on the capital structure of the Company will be as follows:

Issued Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	1,708,748,540	5,951,297,670
Preferred / PFP2	15,000,000	15,000,000

Outstanding Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	1,666,670,960	5,909,220,090
Preferred / PFP2	15,000,000	15,000,000

Treasury Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	42,077,580	42,077,580

Listed Shares

Type of Security / Stock Symbol	*Before*	*After*
Common / PF	1,708,748,540	5,951,297,670
Preferred / PFP2	15,000,000	15,000,000

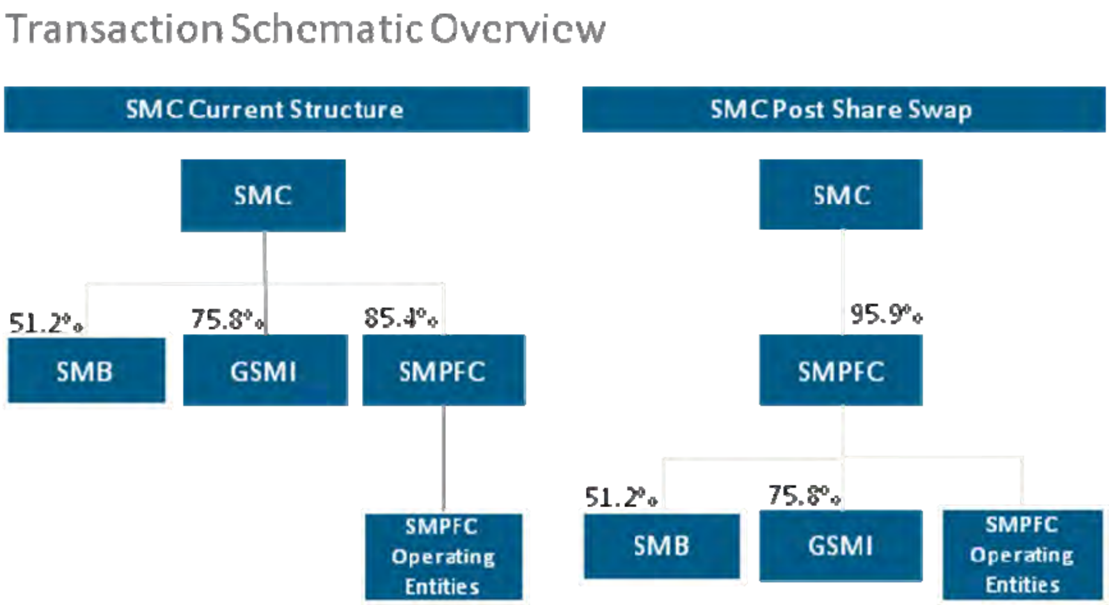
TENDER OFFER FOR SMB AND GSMI SHARES HELD BY MINORITY SHAREHOLDERS

Rule 19 of the Securities Regulation Code requires a person who intends to acquire 35% or more of equity shares in a public company to disclose such intention and contemporaneously make a tender offer for the percentage sought to all holders of such class.

Considering that the Share Swap Transaction will involve the Company acquiring at least 51.16% of the outstanding common shares of SMB and at least 75.78% of the outstanding common shares of GSMI, both of which are public companies, there may be a need for the Company to conduct a mandatory tender offer for the remaining common shares in SMB and GSMI.

Such tender offer rule is meant to protect the interests of the stockholders of the target public company, particularly the minority stockholders. The rule is aimed to alert existing stockholders of a public company to a possible threat of control by a third party, who may seek to take over the company. Thus, the tender offer rule regulates the change in control of a public company in order to protect shareholders against schemes that dilute the value of their investments. In connection with a transfer of control of the target company, the tender offer provides minority shareholders an opportunity to (i) consider the exit of the selling shareholder from the company, and (ii) decide whether or not to exit the company under the same price and terms available to the exiting majority shareholder.

However, there will be no change in the ultimate controlling beneficial shareholder of SMB and GSMI as a result of the acquisition by the Company of the Exchange Shares from SMC. As can be gleaned from the diagram below, the Company, SMB and GSMI are all currently majority-owned and controlled by SMC, and they will remain to be so after the completion of the Share Swap Transaction.



That said, while the Company submits that it is not legally required to undertake a tender offer for the remaining shares in SMB and GSMI and thus intends to secure exemptive relief from the SEC on this matter, the Board of Directors approved the conduct of a tender offer for the shares in SMB and GSMI held by their respective minority shareholders, if required under and pursuant to the provisions of applicable law and regulations.

Should the SEC deny exemptive relief on the view that a tender offer is required, the Company is seeking the further approval of the shareholders to enable it to conduct such tender offer in accordance with applicable law and regulations.

LISTING ON THE PSE OF THE ADDITIONAL SHARES RESULTING FROM THE REDUCTION OF PAR VALUE OF SHARES AND THE NEW SHARES TO BE ISSUED TO SMC

As a result of the reduction in par value of the common shares from P10.00 per share to P1.00 per share, the common shares of the Company will be split into ten common shares for every one common share of the current authorized capital stock of the Company, or from the Company's 170,874,854 issued common shares pre-split, to 1,708,748,540 issued common shares post-split.

Moreover, upon increase in the Company's authorized capital stock by P9,540,000,000.00 consisting of 9,540,000,000 common shares with a par value of P1.00 per share and to implement the Share Swap Transaction, the Company will issue to SMC the New Shares out of such increase as consideration for the Exchange Shares.

In order to facilitate a more active trading of the Company's issued and outstanding common shares, the Board of Directors approved the listing on the PSE of (1) the additional issued common shares of the Company resulting from the reduction of par value above mentioned, or the amount of 1,537,873,686 common shares (which is the difference between the pre- and post-split number of shares); and (2) the amount of 4,242,549,130 common shares comprising the New Shares to be issued by the Company to SMC out of the increase in its authorized capital stock, or a total of 5,780,422,816 common shares (the "Subject Shares").

The further approval by the shareholders of the listing of the Subject Shares, as well as the waiver by a majority vote of the minority shareholders present or represented in this meeting of the requirement to conduct a rights or public offering of the New Shares are being sought to enable the Company to comply with Article V, Sections 1 and 5 of the listing rules of the PSE for the listing of the Shares with the PSE, inasmuch as the New Shares will amount to more than 10% of the resulting issued and outstanding capital stock of the Company (as indicated in the capital structure of the Company after the Share Swap Transaction above discussed).

VOTING AND VOTE TABULATION PROCEDURES

<u>Approval of amendments to the Articles of Incorporation on the primary purpose, corporate name, reduction in par value of common shares (including delegation to management of the approval of the mechanics for the implementation of the stock split) and denial of pre-emptive rights for issuances or dispositions of all common shares</u>

The affirmative vote of at least two-thirds (2/3) of the stockholders present or represented by proxy at the meeting is necessary for the approval of each of these items in the agenda.

<u>Approval of increase in authorized capital stock and the amendments to the Articles of Incorporation to reflect such increase</u>

The affirmative vote of at least two-thirds (2/3) of the stockholders present or represented by proxy at the meeting is necessary for the approval of this item in the agenda.

<u>Approval of the acquisition of SMB and GSMI shares from SMC and the issuance of the Company's shares from the increase in its authorized capital stock, to SMC as consideration for those shares</u>

The affirmative vote of at least a majority of the common stockholders present or represented by proxy at the meeting is necessary for the approval of this agenda item.

<u>Approval of tender offer for SMB and GSMI shares held by minority shareholders, if required in connection with the Share Swap Transaction</u>

The affirmative vote of at least a majority of the common stockholders present or represented by proxy at the meeting is necessary for the approval of this agenda item.

<u>Approval to list on the PSE the additional shares resulting from the reduction of par value of shares and the shares to be issued to SMC under the Share Swap Transaction</u>

The affirmative vote of at least a majority of the common stockholders present or represented by proxy at the meeting is necessary for the approval of this agenda item.

In this connection, the affirmative vote of at least majority of the minority common stockholders present or represented by proxy at the meeting is necessary to waive the conduct of a rights or public offering of the shares to be issued to SMC under the Share Swap Transaction.

Counting of the Ayes and Nays or a show of hands will be the methods by which votes will be counted. The Corporate Secretary and Assistant Corporate Secretary, with the assistance of SMC Stock Transfer Service Corporation, as the Company's independent stock transfer agent, as well as the Company's external auditor, are authorized to count any votes cast during the meeting.

No director, executive officer, nominee or associate of the nominees has any substantial interest, direct or indirect by security holdings or otherwise, in any way, of the matters to be taken up during the meeting. The Company has not received any information than an officer, director or stockholder intends to oppose any action to be taken at the Special Stockholders' Meeting.

FINANCIAL AND OTHER INFORMATION

Financial Statements

The unaudited financial statements of the Company and its subsidiaries as at and for the period ended September 30, 2017 are attached hereto as **Annex "A"**.

Management's Discussion and Analysis or Plan of Operation

Management's Discussion and Analysis or Plan of Operation of the Company and its subsidiaries as at and for the period ended September 30, 2017 is attached hereto as **Annex "B"**.

Independent Public Accountants

The accounting firm of Reyes Tacandong & Co. (RT & Co.) served as the Company's external auditor for fiscal year 2016. Representatives of RT & Co. are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on November 23, 2017.

SAN MIGUEL PURE FOODS COMPANY INC.

By:

ALEXANDRA BENGSON TRILLANA
Corporate Secretary

ANNEX "A"

SEC Number **11840**
File Number

**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)

September 30, 2017

Period Ended Date

(Secondary License Type and File Number)

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	September 30 2017 Unaudited	December 31 2016 Audited
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	**₱4,481,945**	₱7,539,514
Trade and other receivables - net (Notes 6, 8 and 9)	**8,055,092**	11,252,266
Inventories	**23,217,334**	17,346,931
Biological assets	**3,280,768**	3,121,543
Prepaid expenses and other current assets (Notes 6, 8 and 9)	**1,252,205**	1,518,198
Total Current Assets	**40,287,344**	40,778,452
Noncurrent Assets		
Investment property - net	**673,553**	673,256
Property, plant and equipment - net (Note 4)	**25,229,778**	17,670,995
Biological assets - net of current portion	**2,601,934**	2,263,279
Trademarks and other intangible assets - net	**4,078,614**	4,145,932
Deferred tax assets	**782,627**	878,299
Other noncurrent assets (Notes 6, 8 and 9)	**806,497**	604,712
Total Noncurrent Assets	**34,173,003**	26,236,473
	₱74,460,347	₱67,014,925
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 8 and 9)	**₱4,956,831**	₱5,125,851
Trade payables and other current liabilities (Notes 6, 8 and 9)	**21,993,492**	18,062,631
Income tax payable	**516,825**	424,470
Total Current Liabilities	**27,467,148**	23,612,952
Noncurrent Liabilities		
Deferred tax liabilities	**27,064**	26,699
Other noncurrent liabilities	**358,687**	188,615
Total Noncurrent Liabilities	**385,751**	215,314
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	**(121,803)**	(121,425)
Retained earnings		
Appropriated	**2,999,100**	2,999,100
Unappropriated	**19,577,003**	16,411,813
Treasury stock	**(15,182,094)**	(15,182,094)
	44,515,735	41,350,923
Non-controlling Interests	**2,091,713**	1,835,736
Total Equity	**46,607,448**	43,186,659
	₱74,460,347	₱67,014,925

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 PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In Thousands, Except Per Share Data)

	For the Nine Months Ended		For the Three Months Ended	
	September 30 2017	September 30 2016	**September 30 2017**	September 30 2016
REVENUES (Note 6)	**₱84,451,581**	₱80,581,597	**₱28,504,304**	₱27,427,118
COST OF SALES (Note 6)	**64,568,621**	62,532,055	**21,865,393**	21,018,458
GROSS PROFIT	**19,882,960**	18,049,542	**6,638,911**	6,408,660
SELLING AND ADMINISTRATIVE EXPENSES (Note 6)	**(13,132,951)**	(12,436,327)	**(4,348,697)**	(4,397,129)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(81,064)**	(91,019)	**(26,396)**	(33,411)
INTEREST INCOME	**84,755**	97,588	**26,898**	29,700
GAIN ON SALE OF INVESTMENT PROPERTY AND PROPERTY AND EQUIPMENT	**7,492**	122,875	**257**	6,983
OTHER CHARGES - Net	**(130,554)**	(350,509)	**(48,251)**	(209,281)
INCOME BEFORE INCOME TAX	**6,630,638**	5,392,150	**2,242,722**	1,805,522
INCOME TAX EXPENSE	**1,911,545**	1,637,690	**663,493**	550,428
NET INCOME	**₱4,719,093**	₱3,754,460	**₱1,579,229**	₱1,255,094
Net income attributable to:				
Equity holders of the Parent Company	**₱4,551,593**	₱3,640,905	**₱1,508,385**	₱1,230,065
Non-controlling interests	**167,500**	113,555	**70,844**	25,029
	₱4,719,093	₱3,754,460	**₱1,579,229**	₱1,255,094
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	**₱23.49**	₱18.03	**₱7.78**	₱6.11

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 PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	For the Nine Months Ended		For the Three Months Ended	
	September 30 2017	September 30 2016	**September 30 2017**	September 30 2016
NET INCOME	**₱4,719,093**	₱3,754,460	**₱ 1,579,229**	₱1,255,094
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations	**(1,124)**	160	**96**	2,532
Net gain (loss) on available-for-sale financial assets	**809**	209	**(363)**	155
Income tax benefit (expense)	**(86)**	(31)	**32**	(28)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**(401)**	338	**(235)**	2,659
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax	**₱4,718,692**	₱3,754,798	**₱1,578,994**	₱1,257,753
Total comprehensive income attributable to:				
Equity holders of the Parent Company	**₱4,551,215**	₱3,640,078	**₱1,508,011**	₱1,232,534
Non-controlling interests	**167,477**	114,720	**70,983**	25,219
	₱4,718,692	₱3,754,798	**₱1,578,994**	₱1,257,753

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 PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)

	Equity Attributable to Equity Holders of the Parent Company														
				Equity Reserves											
	Capital Stock		Additional	Reserve for	Cumulative			Other	Retained Earnings		Treasury Stock			Non-	
	Common Stock	Preferred Stock	Paid-in Capital	Retirement Plan	Translation Reserve	Revaluation Increment	Fair Value Reserve	Equity Reserves	Appropriated	Unappro-priated	Common Stock	Preferred Stock	Total	controlling Interests	Total Equity
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**
Loss on exchange differences on translation of foreign operations	–	–	–	–	**(1,101)**	–	–	–	–	–	–	–	**(1,101)**	**(23)**	**(1,124)**
Net gain on available-for-sale financial assets, net of deferred tax	–	–	–	–	–	–	**723**	–	–	–	–	–	**723**	–	**723**
Other comprehensive income (loss)	–	–	–	–	**(1,101)**	–	**723**	–	–	–	–	–	**(378)**	**(23)**	**(401)**
Net income	–	–	–	–	–	–	–	–	–	**4,551,593**	–	–	**4,551,593**	**167,500**	**4,719,093**
Total comprehensive income (loss)	–	–	–	–	**(1,101)**	–	**723**	–	–	**4,551,593**	–	–	**4,551,215**	**167,477**	**4,718,692**
Addition to non-controlling interests														**88,500**	**88,500**
Cash dividends	–	–	–	–	–	–	–	–	–	**(1,386,403)**	–	–	**(1,386,403)**	–	**(1,386,403)**
As at September 30, 2017 (Unaudited)	**₱1,708,748**	**₱300,000**	**₱35,234,781**	**(₱386,313)**	**(₱143,414)**	**₱18,219**	**₱5,922**	**₱383,783**	**₱2,999,100**	**₱19,577,003**	**(₱182,094)**	**(₱15,000,000)**	**₱44,515,735**	**₱2,091,713**	**₱ 46,607,448**
As at December 31, 2015 (Audited)	₱1,708,748	₱300,000	₱35,234,781	(₱561,536)	(₱160,856)	₱18,219	₱4,023	₱383,783	₱6,199,100	₱9,328,079	(₱182,094)	(₱15,000,000)	₱37,272,247	₱1,744,189	₱39,016,436
Gain (loss) on exchange differences on translation of foreign operations	–	–	–	–	(1,005)	–	–	–	–	–	–	–	(1,005)	1,165	160
Net gain on available-for-sale financial assets, net of deferred tax	–	–	–	–	–	–	178	–	–	–	–	–	178	–	178
Other comprehensive income (loss)	–	–	–	–	(1,005)	–	178	–	–	–	–	–	(827)	1,165	338
Net income	–	–	–	–	–	–	–	–	–	3,640,905	–	–	3,640,905	113,555	3,754,460
Total comprehensive income (loss)	–	–	–	–	(1,005)	–	178	–	–	3,640,905	–	–	3,640,078	114,720	3,754,798
Reversal of appropriation	–	–	–	–	–	–	–	–	(3,200,000)	3,200,000	–	–	–	–	–
Cash dividends	–	–	–	–	–	–	–	–	–	(1,336,404)	–	–	(1,336,404)	(200,000)	(1,536,404)
As at September 30, 2016 (Unaudited)	₱1,708,748	₱300,000	₱35,234,781	(₱561,536)	(₱161,861)	₱18,219	₱4,201	₱383,783	₱2,999,100	₱14,832,580	(₱182,094)	(₱15,000,000)	₱39,575,921	₱1,658,909	₱41,234,830

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 PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In Thousands)

	For the Nine Months Ended	
	September 30 2017	September 30 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,630,638**	₱5,392,150
Adjustments for:		
Depreciation and amortization	**2,474,277**	2,453,973
Interest expense and other financing charges	**81,064**	91,019
Provisions for:		
Impairment losses on receivables	**18,705**	187,352
Write-down of inventories	**115,099**	156,971
Impairment loss on idle assets	**–**	109,326
Other charges (income) net of loss (gain) on derivative transactions	**(60,338)**	122,556
Interest income	**(84,755)**	(97,588)
Gain on fair valuation of agricultural produce	**(60,291)**	(32,505)
Gain on sale of investment property and property and equipment	**(7,492)**	(122,875)
Operating income before working capital changes	**9,106,907**	8,260,379
Decrease (increase) in:		
Trade and other receivables	**3,191,743**	2,259,990
Inventories	**(5,923,647)**	(4,956,803)
Biological assets	**(159,225)**	(330,761)
Prepaid expenses and other current assets	**249,031**	786,304
Increase (decrease) in trade payables and other current liabilities	**3,997,725**	(277,690)
Cash generated from operations	**10,462,534**	5,741,419
Interest received	**68,343**	65,263
Interest paid	**(78,272)**	(91,499)
Income taxes paid	**(1,723,206)**	(1,926,585)
Increase (decrease) in retirement liability	**107,252**	(380,612)
Net cash flows provided by operating activities	**8,836,651**	3,407,986
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	**(8,220,435)**	(3,848,423)
Increase in noncurrent biological assets and other noncurrent assets	**(2,270,056)**	(1,653,582)
Proceeds from sale of investment property and property and equipment	**8,215**	124,064
Net cash flows used in investing activities	**(10,482,276)**	(5,377,941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of notes payable	**103,413,706**	82,972,331
Payments of notes payable	**(103,585,417)**	(81,955,111)
Cash dividends paid	**(1,387,220)**	(1,534,956)
Increase in non-controlling interests	**88,500**	–
Deposit for future stock subscription of a non-controlling shareholder	**60,000**	–
Net cash flows used in financing activities	**(1,410,431)**	(517,736)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,513)**	(2,303)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,057,569)**	(2,489,994)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,539,514**	9,283,850
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱4,481,945**	₱6,793,856

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 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 Pure Foods Company Inc. (SMPFC or the Parent Company), 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 SMPFC, 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 SMPFC 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, including poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, specialty oils, spreads, desserts and dairy-based products, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling.

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

2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended September 30, 2017 and comparative financial statements for the same period in 2016 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.

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

Amendments to Standards Adopted in 2017

The Group has adopted the following PFRS effective January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows).* The amendments improve disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.

- Recognition of Deferred Tax Assets for Unrealized Losses *(Amendments to PAS 12, Income Taxes).* The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only Clarification of the Scope of the Standard *(Amendments to PFRS 12, Disclosure of Interests in Other Entities)* may be applicable to the Group in 2017. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the 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:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only Measuring an associate or joint venture at fair value *(Amendments to PAS 28, Investments in Associates)* may be applicable to the Group after January 1, 2017. 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.

  The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. Potential impact is being assessed.

- Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- Classification and Measurement of Share-based Payment Transactions *(Amendments to PFRS 2, Share-based Payment)*. 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. The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) 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. The amendments also clarify that the entity is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the 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; and (b) the difference between the carrying amount of the liability derecognized and the amount recognized in equity as at the modification date is recognized in profit or loss immediately.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. Amendments can be applied retrospectively or prospectively. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- 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.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Transfers of Investment Property (*Amendments to PAS 40, Investment Property*). The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in PAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. When there is uncertainty over income tax treatments, this interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

  On initial application, an entity shall apply this interpretation either: (a) retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this interpretation.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this interpretation for an earlier period, it shall disclose that fact.

- 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.

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 Nine Months Ended September 30, 2017						
	Agro-Industrial	**Branded Value-Added**	**Milling**	**Total Reportable Segments**	**Others**	**Eliminations**	**Consolidated**
Revenues							
External	**₱57,861,718**	**₱19,471,025**	**₱5,831,943**	**₱83,164,686**	**₱1,286,895**	**₱−**	**₱84,451,581**
Inter-segment	**1,473,260**	**1,433**	**1,250,361**	**2,725,054**	**26**	**(2,725,080)**	**−**
Total revenues	**₱59,334,978**	**₱19,472,458**	**₱7,082,304**	**₱85,889,740**	**₱1,286,921**	**(₱2,725,080)**	**₱84,451,581**
Segment operating results	**₱4,493,993**	**₱1,398,193**	**₱1,059,207**	**₱6,951,393**	**(₱201,384)**	**₱−**	**₱6,750,009**
Interest expense and other financing charges	**(1,540)**	**(45,659)**	**(17,783)**	**(64,982)**	**(17,377)**	**1,295**	**(81,064)**
Interest income	**23,370**	**15,291**	**11,282**	**49,943**	**36,107**	**(1,295)**	**84,755**
Gain on sale of property and equipment	**5,327**	**989**	**−**	**6,316**	**1,176**	**−**	**7,492**
Other income (charges) - net	**(93,186)**	**(20,984)**	**7,240**	**(106,930)**	**2,976,376**	**(3,000,000)**	**(130,554)**
Income tax benefit (expense)	**(1,319,949)**	**(409,349)**	**(294,325)**	**(2,023,623)**	**112,078**	**−**	**(1,911,545)**
Net income	**₱3,108,015**	**₱938,481**	**₱765,621**	**₱4,812,117**	**₱2,906,976**	**(₱3,000,000)**	**₱4,719,093**

	For the Nine Months Ended September 30, 2016						
	Agro-Industrial	Branded Value-Added	Milling	Total Reportable Segments	Others	Eliminations	Consolidated
Revenues							
External	₱54,843,285	₱18,485,899	₱6,129,593	₱79,458,777	₱1,122,820	₱−	₱80,581,597
Inter-segment	1,421,318	20,415	1,182,170	2,623,903	4,191	(2,628,094)	−
Total revenues	₱56,264,603	₱18,506,314	₱7,311,763	₱82,082,680	₱1,127,011	(₱2,628,094)	₱80,581,597
Segment operating results	₱2,684,596	₱1,335,747	₱1,433,266	₱5,453,609	₱159,606	₱−	₱5,613,215
Interest expense and other financing charges	(1,268)	(45,096)	(27,446)	(73,810)	(18,168)	959	(91,019)
Interest income	21,526	27,412	10,152	59,090	39,457	(959)	97,588
Gain (loss) on sale of investment property and property and equipment	118,294	−	(76)	118,218	4,657	−	122,875
Other income (charges) - net	(131,462)	(46,590)	(14,168)	(192,220)	141,711	(300,000)	(350,509)
Income tax expense	(801,892)	(423,201)	(364,408)	(1,589,501)	(48,189)	−	(1,637,690)
Net income	₱1,889,794	₱848,272	₱1,037,320	₱3,775,386	₱279,074	(₱300,000)	₱3,754,460

4. Property, Plant and Equipment

This account consists of:

September 30, 2017 and December 31, 2016

	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Capital Projects in Progress	Total
Cost						
January 1, 2016 (Audited)	₱2,875,409	₱6,267,469	₱10,024,413	₱393,321	₱2,641,441	₱22,202,053
Additions	126,862	385,328	924,705	214,822	4,815,023	6,466,740
Disposals	(12,893)	(2,328)	(55,048)	(301,499)	−	(371,768)
Transfers, reclassifications and others	(34,342)	13,884	67,461	−	(86,127)	(39,124)
Cumulative translation reserve	1,832	4,063	14,464	1,014	−	21,373
December 31, 2016 (Audited)	2,956,868	6,668,416	10,975,995	307,658	7,370,337	28,279,274
Additions	10,610	112,468	296,428	12,103	7,788,826	8,220,435
Disposals	−	−	(208,787)	(36,496)	−	(245,283)
Transfers, reclassifications and others	−	−	9,408	−	20,363	29,771
Cumulative translation reserve	411	1,458	4,676	195	−	6,740
September 30, 2017 (Unaudited)	**2,967,889**	**6,782,342**	**11,077,720**	**283,460**	**15,179,526**	**36,290,937**
Accumulated depreciation						
January 1, 2016 (Audited)	364,745	2,264,888	6,758,893	378,281	−	9,766,807
Additions	21,617	308,700	647,177	4,753	−	982,247
Disposals	(12,652)	(2,315)	(54,311)	(94,247)	−	(163,525)
Transfers, reclassifications and others	68	(13)	8,560	(2)	−	8,613
Cumulative translation reserve	−	2,278	10,845	1,014	−	14,137
December 31, 2016 (Audited)	373,778	2,573,538	7,371,164	289,799	−	10,608,279
Additions	11,315	190,875	476,294	4,787	−	683,271
Disposals	−	−	(208,066)	(36,495)	−	(244,561)
Transfers, reclassifications and others	−	−	9,408	−	−	9,408
Cumulative translation reserve	−	873	3,695	194	−	4,762
September 30, 2017 (Unaudited)	**385,093**	**2,765,286**	**7,652,495**	**258,285**	**−**	**11,061,159**
Carrying amount						
December 31, 2016 (Audited)	₱2,583,090	₱4,094,878	₱3,604,831	₱17,859	₱7,370,337	₱17,670,995
September 30, 2017 (Unaudited)	**₱2,582,796**	**₱4,017,056**	**₱3,425,225**	**₱25,175**	**₱15,179,526**	**₱25,229,778**

September 30, 2016

	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Capital Projects in Progress	Total
Cost						
January 1, 2016 (Audited)	₱2,875,409	₱6,267,469	₱10,024,413	₱393,321	₱2,641,441	₱22,202,053
Additions	15,822	341,608	817,383	6,297	2,667,313	3,848,423
Disposals	(12,893)	(2,298)	(38,478)	(83,045)	−	(136,714)
Transfers, reclassifications and others	(33,545)	13,875	59,226	−	(72,494)	(32,938)
Cumulative translation reserve	2,021	4,178	15,200	1,099	−	22,498
September 30, 2016 (Unaudited)	2,846,814	6,624,832	10,877,744	317,672	5,236,260	25,903,322
Accumulated depreciation						
January 1, 2016 (Audited)	364,745	2,264,888	6,758,893	378,281	−	9,766,807
Additions	16,100	230,060	485,398	3,469	−	735,027
Disposals	(12,652)	(2,287)	(38,093)	(83,045)	−	(136,077)
Transfers, reclassifications and others	68	(13)	1,497	(2)	−	1,550
Cumulative translation reserve	−	2,343	11,383	1,099	−	14,825
September 30, 2016 (Unaudited)	368,261	2,494,991	7,219,078	299,802	−	10,382,132
Carrying amount						
September 30, 2016 (Unaudited)	₱2,478,553	₱4,129,841	₱3,658,666	₱17,870	₱5,236,260	₱15,521,190

Depreciation recognized in profit or loss amounted to ₱683.3 million and ₱735.0 million for the periods ended September 30, 2017 and 2016, respectively.

5. Equity

Capital Stock

The Parent Company's capital stock, at ₱10.00 par value, consists of the following number of shares as at September 30, 2017:

	Common	Preferred
Issued shares at beginning of period	170,874,854	30,000,000
Treasury shares	(4,207,758)	(15,000,000)
Issued and outstanding shares at end of period	166,667,096	15,000,000
Authorized shares	206,000,000	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, SMPFC'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 SMPFC 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 SMPFC'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:

SMPFC, 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 September 30, 2017, the Parent Company has a total of 131 and 104 common and preferred stockholders, respectively.

Treasury Shares

Treasury shares totaling 4,207,758 common shares and 15,000,000 preferred shares are carried at cost as at September 30, 2017 and December 31, 2016.

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:

2017

Class of Shares	**Date of Declaration**	**Date of Record**	**Date of Payment**	**Dividend per Share**
Common	February 2, 2017	February 17, 2017	March 1, 2017	**₱1.50**
	May 9, 2017	May 24, 2017	June 8, 2017	**1.50**
	August 9, 2017	August 24, 2017	September 7, 2017	**1.50**
Preferred				
PFP2	February 2, 2017	February 17, 2017	March 13, 2017	**14.14225**
	May 9, 2017	May 24, 2017	June 13, 2017	**14.14225**
	August 9, 2017	August 24, 2017	September 12, 2017	**14.14225**

2016

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	February 2, 2016	February 18, 2016	March 1, 2016	₱1.20
	May 6, 2016	May 23, 2016	June 3, 2016	1.50
	August 8, 2016	August 23, 2016	September 6, 2016	1.50
Preferred				
PFP2	February 2, 2016	February 18, 2016	March 12, 2016	14.14225
	May 6, 2016	May 23, 2016	June 12, 2016	14.14225
	August 8, 2016	August 23, 2016	September 12, 2016	14.14225

6. Related Party Disclosures

The Parent Company, and certain subsidiaries and their shareholders, in the normal course of business, purchase products and services from one another. 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, 2016	₱40	₱–	₱111	₱–	On demand; non-interest bearing	Unsecured; no impairment
Intermediate Parent Company	**September 30, 2017**	**2,624**	**368,496**	**4,039**	**70,122**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	33,325	711,289	36,911	175,333		
Entities under Common Control	**September 30, 2017**	**137,750**	**5,009,345**	**301,544**	**1,659,111**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	202,712	4,966,499	278,243	1,356,373		
Shareholders in subsidiaries and other affiliate	**September 30, 2017**	**–**	**369,477**	**29,945**	**5,858**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	–	606,078	8,650	30,644		
Total	**September 30, 2017**	**₱140,374**	**₱ 5,747,318**	**₱335,528**	**₱1,735,091**		
Total	December 31, 2016	₱236,077	₱6,283,866	₱323,915	₱1,562,350		

Amounts owed by related parties consist mainly of trade and non-trade receivables. As at September 30, 2017 and December 31, 2016, amounts owed by related parties amounting to ₱8.6 million and ₱0.3 million, respectively, are included under “Prepaid expenses and other current assets” account. Amounts owed by related parties amounting to ₱1.0 million and ₱8.3 million as at September 30, 2017 and December 31, 2016, respectively, are included under “Other noncurrent assets” account.

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

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 dividends declared.

Basic earnings per common share is computed as follows:

	For the Nine Months Ended	
	September 30, 2017	September 30, 2016
Net income attributable to equity holders of the Parent Company	**₱4,551,593**	₱3,640,905
Dividends on preferred shares for the period	**(636,401)**	(636,401)
Net income attributable to common shareholders of the Parent Company (a)	**₱3,915,192**	₱3,004,504
Common shares issued and outstanding	**166,667,096**	166,667,096
Weighted average number of common shares (b)	**166,667,096**	166,667,096
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**₱ 23.49**	₱ 18.03

As at September 30, 2017 and 2016, 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, available-for-sale (AFS) financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, 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 accounting policies in relation to derivatives are set out in Note 9 to the interim consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with 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 also prepare the reports required to be included in the annual report of the Group.

The Audit Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Interest Rate Risk

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

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

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.

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:

	September 30, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$5,838**	**₱296,658**	US$4,700	₱233,684
Trade and other receivables	**4,324**	**219,724**	4,241	210,863
	10,162	**516,382**	8,941	444,547
Liabilities				
Notes payable	**2,970**	**150,921**	3,160	157,115
Trade payables and other current liabilities	**12,928**	**656,936**	10,813	537,622
	15,898	**807,857**	13,973	694,737
Net foreign currency-denominated monetary liabilities	**(US$5,736)**	**(₱291,475)**	(US$5,032)	(₱250,190)

The Group reported net foreign exchange gains of ₱15.4 million and ₱24.5 million for the period ended September 30, 2017 and 2016, 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
September 30, 2017	50.815
December 31, 2016	49.720
September 30, 2016	48.500
December 31, 2015	47.060

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 September 30, 2017 and December 31, 2016.

	September 30, 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	**(₱4,430)**	**(₱4,509)**	**₱4,430**	**₱4,509**
Trade and other receivables	**(1,522)**	**(3,868)**	**1,522**	**3,868**
	(5,952)	**(8,377)**	**5,952**	**8,377**
Notes payable	**–**	**2,970**	**–**	**(2,970)**
Trade payables and other current liabilities	**8,632**	**10,338**	**(8,632)**	**(10,338)**
	8,632	**13,308**	**(8,632)**	**(13,308)**
	₱2,680	**₱4,931**	**(₱2,680)**	**(₱4,931)**

	December 31, 2016			
	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	(₱3,434)	(₱3,670)	₱3,434	₱3,670
Trade and other receivables	(1,106)	(3,909)	1,106	3,909
	(4,540)	(7,579)	4,540	7,579
Notes payable	−	3,160	−	(3,160)
Trade payables and other current liabilities	6,396	8,894	(6,396)	(8,894)
	6,396	12,054	(6,396)	(12,054)
	₱1,856	₱4,475	(₱1,856)	(₱4,475)

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 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.

	September 30, 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	**₱4,481,945**	**₱4,481,945**	**₱4,481,945**	**₱–**	**₱–**	**₱–**
Trade and other receivables - net	**8,055,092**	**8,055,092**	**8,055,092**	**–**	**–**	**–**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**11,755**	**11,755**	**11,755**	**–**	**–**	**–**
AFS financial assets (included under "Other noncurrent assets" account)	**12,830**	**12,830**	**–**	**–**	**–**	**12,830**
Noncurrent receivables and deposits (included under "Other noncurrent assets" account)	**265,805**	**265,805**	**–**	**50,301**	**102,394**	**113,110**
Financial Liabilities						
Notes payable	**4,956,831**	**4,962,041**	**4,962,041**	**–**	**–**	**–**
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**21,165,468**	**21,165,468**	**21,165,468**	**–**	**–**	**–**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**115,647**	**115,647**	**115,647**	**–**	**–**	**–**

	December 31, 2016					
	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	₱7,539,514	₱7,539,514	₱7,539,514	₱–	₱–	₱–
Trade and other receivables - net	11,252,266	11,252,266	11,252,266	–	–	–
Derivative assets (included under "Prepaid expenses and other current assets" account)	7,062	7,062	7,062	–	–	–
AFS financial assets (included under "Other noncurrent assets" account)	12,016	12,016	–	–	–	12,016
Noncurrent receivables and deposits (included under "Other noncurrent assets" account)	61,547	61,547	–	32,832	10,466	18,249
Financial Liabilities						
Notes payable	5,125,851	5,132,930	5,132,930	–	–	–
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	16,827,904	16,827,904	16,827,904	–	–	–
Derivative liabilities (included under "Trade payables and other current liabilities" account)	176,214	176,214	176,214	–	–	–

<u>Credit Risk</u>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the 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.

<u>Trade and Other Receivables</u>

The Group's 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 September 30, 2017 and December 31, 2016, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	September 30, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	**₱4,473,133**	₱7,528,756
Trade and other receivables - net	**8,055,092**	11,252,266
Derivative assets	**11,755**	7,062
AFS financial assets	**12,830**	12,016
Noncurrent receivables and deposits	**265,805**	61,547
	₱12,818,615	₱18,861,647

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

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock, cumulative translation reserve, fair value reserve, reserve for retirement plan, revaluation increment and other 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 the 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 profit or loss 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 profit or loss 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.

<u>Financial Assets</u>
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets classified as HTM investments as at September 30 and June 30, 2017 and December 31, 2016.

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 profit or loss as incurred. Fair value changes 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 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 profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category (Note 8).

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 profit or loss when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents and trade and other receivables are included under this category (Note 8).

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 equity are transferred to and recognized in profit or loss.

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

The Group's investments in shares of stock included under "Other noncurrent assets" account are classified under this category (Note 8).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and 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 (Note 8).

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 profit or loss 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, and trade payables and other current liabilities, excluding dividends payable and statutory liabilities, are included under this category (Note 8).

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

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

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

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

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 profit or loss.

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 profit or loss. 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 profit or loss, 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 profit or loss, is transferred from equity to profit or loss. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

If there is 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 profit or loss.

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

The table below presents a comparison by category of carrying amounts and fair values of the Group’s financial instruments as at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱4,481,945**	**₱4,481,945**	₱7,539,514	₱7,539,514
Trade and other receivables - net	**8,055,092**	**8,055,092**	11,252,266	11,252,266
Derivative assets (included under “Prepaid expenses and other current assets” account)	**11,755**	**11,755**	7,062	7,062
AFS financial assets (included under “Other noncurrent assets” account)	**12,830**	**12,830**	12,016	12,016
Noncurrent receivables and deposits (included under “Other noncurrent assets” account)	**265,805**	**265,805**	61,547	61,547
Financial Liabilities				
Notes payable	**4,956,831**	**4,956,831**	5,125,851	5,125,851
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**21,165,468**	**21,165,468**	16,827,904	16,827,904
Derivative liabilities (included under “Trade payables and other current liabilities” account)	**115,647**	**115,647**	176,214	176,214

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

Cash and Cash Equivalents and Trade and Other Receivables. 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.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding commodity derivatives, the fair values are determined based on quoted prices obtained from active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

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 profit or loss. 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 profit or loss.

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 September 30 and June 30, 2017 and December 31, 2016.

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 profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly 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 equity are transferred to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

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 equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

The Group has no outstanding derivatives accounted for as a cash flow hedge as at September 30 and June 30, 2017 and December 31, 2016.

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. Gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income while any gain or loss relating to the ineffective portion is recognized in profit or loss. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in equity is transferred to and recognized in profit or loss.

The Group has no hedge of a net investment in a foreign operation as at September 30 and June 30, 2017 and December 31, 2016.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in profit or loss.

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 September 30 and June 30, 2017 and December 31, 2016.

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 September 30 and June 30, 2017 and December 31, 2016, 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 September 30 and June 30, 2017 and December 31, 2016, the total outstanding notional amount of such embedded currency forwards amounted to $68.9 million, $73.9 million and US$85.0 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 September 30 and June 30, 2017 and December 31, 2016, the net negative fair value of these embedded currency forwards amounted to ₱103.9 million, ₱134.4 million and ₱169.2 million, respectively.

For the periods ended September 30, 2017 and 2016 and June 30, 2017 and 2016, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (₱48.9 million), (₱145.4 million), (₱23.7 million), and ₱12.7 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:

September 30, 2017

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**₱–**	**₱11,755**	**₱11,755**
AFS financial assets	**11,451**	**1,379**	**12,830**
Financial Liabilities			
Derivative liabilities	**–**	**115,647**	**115,647**

December 31, 2016

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	₱–	₱7,062	₱7,062
AFS financial assets	10,640	1,376	12,016
Financial Liabilities			
Derivative liabilities	–	176,214	176,214

As at September 30, 2017 and December 31, 2016, 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 November 9, 2017, the BOD of the Parent Company declared cash dividends to all common shareholders of record as at November 28, 2017 amounting to ₱1.50 per share payable on December 8, 2017. The BOD of the Parent Company likewise declared on November 9, 2017 cash dividends to all preferred shareholders of record as at November 28, 2017 amounting to ₱14.14225 per share payable on December 12, 2017.

b. On November 3, 2017, the BOD of SMC approved the internal restructuring of the San Miguel Group of Companies to consolidate its food and beverage businesses under SMPFC. To implement such consolidation, SMC will transfer all of its 7,859,319,270 common shares in San Miguel Brewery Inc. (SMB) and all of its 216,972,000 common shares in Ginebra San Miguel, Inc. (GSMI) (collectively, the “Exchange Shares”) to SMPFC. In consideration for the Exchange Shares, SMPFC will issue 4,242,549,130 new common shares (the “New Shares”) to SMC.

   In this connection, the following corporate actions were approved by the BOD of SMPFC on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of SMPFC to include the beverage business and accordingly change its corporate name 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 of the Exchange Shares from SMC and issuance by SMPFC of New Shares to SMC from the Increase, as consideration for the Exchange Shares; (d) the tender offer for SMB and GSMI shares held by minority shareholders, if required; and (e) the listing on the PSE of the additional shares resulting from the reduction of par value of common shares and the New Shares to be issued to SMC.

Stockholders’ approval shall be sought for these corporate actions in a special stockholders’ meeting to be held on January 18, 2018.

c. In September 2017, SMPFC entered into separate Intellectual Property Rights Transfer Agreements (Agreements) with POMS Ventures Corporation (PVC) and Agana Circle Enterprises, Inc. (ACEI) for the transfer to SMPFC of several Philippine cooking oil trademarks, brands or logos registered in the name of PVC and ACEI, subject to the fulfilment of certain terms and conditions specified in the Agreements.

d. 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.

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

f. Certain amounts 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.

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

h. 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.

i. 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 (b) of the 2016 Audited Consolidated Financial Statements that remain outstanding as at September 30, 2017. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

j. 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 September 30, 2017.

k. 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.

l. 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 September 30, 2017. 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 Pure Foods Company Inc. ("SMPFC" or the "Company") and its subsidiaries (collectively referred to as the "Group") as at and for the period ended September 30, 2017 (with comparative figures as at December 31, 2016 and for the period ended September 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at September 30, 2017, 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

2017 vs 2016

The Group posted consolidated revenues of P84.5 billion for the first nine months of the year, a 5% growth over the same period in 2016, mainly driven by the strong performance of processed meats, poultry and fresh meats offsetting flour's lower selling prices. Chicken prices, however, dropped significantly towards the end of the third quarter after avian flu outbreak in certain areas in North Luzon. Although none of the Company's poultry farms were affected by the avian flu, its selling prices and volume declined as demand for chicken softened. With the avian flu already controlled, chicken prices started to recover in October, albeit slowly.

Gross profit grew 10% on the back of higher revenues, improved operational efficiencies and cost breaks in some raw materials for feeds, partly offset by the impact of peso depreciation as well as the double-digit increases in prices of dairy raw materials.

Selling and administrative expenses went up by 6% 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.

Interest expense and other financing charges dropped by 11% mainly on account of lower average level of borrowings.

Interest income decreased by 13% largely due to the decline in the average level of money market placements.

Disposal of an investment property yielded one-time gain in the first half of 2016, thus, the lower amount of gain on sale of investment property and property and equipment in the first nine months of 2017 compared to same period year ago.

Other charges - net went down by 63% as 2016 includes impairment loss recognized on idle assets of a foreign subsidiary. Lower marked-to-market loss on importations likewise contributed to the drop in other charges - net.

With all the above factors taken into account, the Group achieved a P6.6 billion income before income tax for the first nine months of 2017, 23% higher than 2016's level.

Income tax expense increased by 17% primarily due to higher taxable income of certain subsidiaries.

Consolidated net income of the Group was at P4.7 billion, 26% higher versus last year.

Net income attributable to equity holders of both the Parent Company and non-controlling interests increased by 25% and 48%, respectively, in proportion with the results of the business operation.

Business Highlights:

Agro-Industrial

Agro-Industrial, comprising of San Miguel Foods, Inc.'s (SMFI) Poultry and Fresh Meats, and Feeds businesses, contributed a total of P59.3 billion to the Group's total revenues, 5% higher compared to previous year. Operating income, on the other hand, posted double-digit growth due to better sales mix, favorable selling prices of fresh meats, lower costs of major raw materials and improved operational efficiencies.

Revenue of the combined Poultry and Fresh Meats business went up by 7% versus 2016 level on account of higher volume and better selling prices. Significant decline in chicken prices, however, was experienced in the back-half of third quarter due to weakened demand for poultry products resulting from the avian flu outbreak in certain areas of Pampanga and Nueva Ecija. Poultry selling prices started to slowly recover in October after the Department of Agriculture declared that the bird flu outbreak is over. Meanwhile, Fresh Meats business sustained favorable selling prices.

The Feeds business, on the other hand, posted revenue growth of 2%, despite contraction of backyard hog raising market which set back the hog feeds segment. This was, however, offset by better sales achievement in broilers feeds as well as in some specialty feeds.

Branded Value-Added

Total revenue and operating income of the Branded Value-Added business both grew by 5% versus same period last year primarily driven by the good performance of The Purefoods-Hormel Company, Inc.'s (PF-Hormel) Processed Meats business. Higher volume partly cushioned the impact of the double-digit increase in prices of Magnolia, Inc.'s (Magnolia) major raw materials.

Processed Meats business posted revenue growth of 8% on the back of increased volume in all sales channels and growing contribution of the mid-priced product segment.

The Company's Dairy, Spreads and Biscuits business under Magnolia posted revenue increase of 3% due to price increases implemented to partly cover the rising costs of major raw materials.

The Coffee business under San Miguel Super Coffeemix Co., Inc. (SMSCCI) posted lower revenue this year, as 2016 had the benefit of election spending.

Milling

While global wheat prices already started to show signs of recovery in the early part of the third quarter, improvement in basic flour's selling prices was at a slower pace due to competitive pressures from both existing and new industry players. As a result, both revenue and operating income of the Company's Flour Milling business under San Miguel Mills, Inc. (SMMI) were lower versus same period in 2016.

Others

The combined revenue of the Company's international operations in Indonesia and Vietnam grew by 16% mainly due Vietnam's increased volume. Combined operating income, however, was lower than 2016's level due to the weak performance of Indonesia.

2016 vs 2015

The Group maintained its growth momentum and ended the first nine months of 2016 with consolidated revenues of P80.6 billion, 5% higher than same period in 2015 as Agro-Industrial and Branded Value-Added businesses continued to deliver strong performance. Driving the revenue growth were the continuing favorable selling prices of chicken coming from very low prices in 2015, higher volume, and better selling prices of branded products. The growth, however, was tempered by the drop in basic flour's selling prices brought about by the prevailing downtrend in global wheat prices and intense competition. The impact of lower pork prices likewise affected revenue growth.

Higher volume, combined with improved efficiencies and generally lower cost of raw materials, resulted in 16% improvement in gross profit.

Selling and administrative expenses grew by 12% due to increased advertising and promotions, and logistics and third party services costs. The Company, in its thrust of growing its value-added businesses, boosted its spending on marketing and brand-building activities. Logistics and third party services costs, which include warehouse rental, hauling and contracted services, went up on account of the Group's effort to expand distribution coverage, and due to higher trucking rates.

The substantial drop in interest expense and other financing charges was mainly due to SMFI's full payment of its matured five-year corporate notes with aggregate principal amount of P4.5 billion in December 2015.

Interest income decreased by 30% due to the decline in the average level of money market placements versus same period in 2015.

Gain on sale of investment property and property and equipment was 22% higher compared to same period in 2015 as the disposal of an investment property in the first semester of 2016 yielded higher one-time gain.

Other charges - net went up by 27% due to impairment loss recognized on idle assets of a foreign subsidiary and on account of higher marked-to-market losses related to importations brought about by depreciation of the Philippine Peso against other foreign currencies.

Taking into account the above factors, the Group registered an income before income tax of P5.4 billion in the first nine months of 2016, 30% higher than same period in 2015.

Income tax expense rose by 33% due to higher taxable income of certain subsidiaries.

The overall solid performance of the Group yielded a consolidated net income of P3.8 billion, a 29% growth versus same period in 2015.

Net income attributable to equity holders of the Parent Company was up by 29% due to better combined performances of subsidiaries where SMPFC holds significant ownership.

Net income attributable to non-controlling interests increased by 21% on account of the improved performance of a subsidiary where non-controlling stockholders hold stake.

Business Highlights:

Agro-Industrial

Agro-Industrial, composed of SMFI's Poultry and Fresh Meats, and Feeds businesses, contributed a total of P56.3 billion to the Group's total revenues, a 7% increase compared to 2015's level driven mainly by volume growth and better chicken selling prices as the Poultry business sustained its recovery from 2015's period of low selling prices. Combined with the drop in cost of some major raw materials, operating income in the first three quarters of 2016 was higher than same period in 2015.

Revenue of the combined Poultry and Fresh Meats business of SMFI went up by 9% versus 2015 mainly on account of Poultry's increased sales volume and better selling prices, tempered by the drop in prices of pork.

The Feeds business of SMFI continued its good performance with revenue growing by 3% on the back of higher sales volume driven by sustained market leadership, improved distribution and consistent feed quality.

Branded Value-Added

The Branded Value-Added business of the Company registered 7% revenue increase versus same period in 2015. The combined favorable impact of volume growth, better sales mix and cost breaks in major raw materials resulted in operating income higher than 2015's level.

PF-Hormel's Processed Meats business recorded revenue growth of 7% mainly due to increased volume and better sales mix that translated to higher average selling prices and favorable margins.

The Company's Dairy, Spreads and Biscuits business under Magnolia posted a 9% increase in revenue due to higher volumes of butter, margarine, cheese, ice cream and biscuits, and favorable sales mix that resulted in better selling prices.

Notwithstanding the increased competitive pressure from major players, the Coffee business under SMSCCI registered revenue that is at par with 2015.

Milling

The performance of the Company's Flour Milling business under SMMI remained affected by the industry-wide continuing decline in the selling prices of basic flour as downtrend in global wheat prices prevailed due to abundant wheat supply in the world market. Further aggravating the situation is the intense competition brought about by the proliferation of lower-priced imported flour and the presence of new industry entrants. All these factors led to the bigger drop in basic flour's selling prices compared to the decline in wheat costs. As a result, revenue and operating income for the first nine months of 2016 were lower than same period in 2015.

Others

Combined revenue of the Company's foreign operations in Indonesia and Vietnam was at par with 2015's level. Vietnam continued to register operating income growth with the rationalization of its non-profitable businesses. Indonesia, on the other hand, posted higher operating loss largely on account of lower revenue and increased trade returns.

II. FINANCIAL POSITION

Consolidated financial position of the Group as at September 30, 2017 remained strong. Debt to equity ratio was stable at 0.60:1. Current ratio, on the other hand, remained healthy at 1.47:1 although slightly lower versus 1.73:1 as at December 31, 2016 as trade payables and other current liabilities went up due to surge in raw material purchases for fourth quarter production and to take advantage of favorable prices of some major raw materials. Other factors contributory to the increase in trade payables and other current liabilities were higher logistics and third party services costs, and increased advertising and promotions spending.

The Group has no significant transactions in the first nine months of 2017.

Analysis of Financial Position Accounts

<u>Unaudited Financial Position as at September 30, 2017 vs Audited December 31, 2016</u>

Cash and cash equivalents declined by 41% as funds were used for capital expenditures and for settlement of matured short-term loans.

The collection of peak season sales made in December 2016 and the Group's continued effort to improve receivables' days level resulted in 28% drop in trade and other receivables - net.

Inventories grew by 34% mainly due to the increased importation of certain major raw materials for feeds and basic flour, and the build-up of finished goods and other major raw materials to support expected increase in volume during Christmas season.

The purposive increase in volume of live broiler grown and poultry breeding stock, in anticipation of higher demand in the fourth quarter, resulted in 5% and 15% surge in current and noncurrent biological assets, respectively.

Prepaid expenses and other current assets was 18% lower versus year-end 2016 as input taxes recognized from high level of transactions with third party service providers in December 2016 were applied against output taxes payable in the first quarter of 2017. The amortization of the insurance covering the Group's various plants and facilities also contributed to the drop in prepaid expenses.

The Group's ongoing expansion projects increased property, plant and equipment - net by 43%.

The adjustment on deferred tax asset provision resulted in 11% drop in deferred tax assets.

Other noncurrent assets went up by 33% due to the increase in non-trade receivables.

The 22% increase in trade payables and other current liabilities was due to higher volume of transactions with third party suppliers.

Income tax payable was 22% above 2016 year-end balance mainly due to higher taxable income.

Higher other noncurrent liabilities was due to the increase in pension payable and recognition of deposit for future stock subscription for the additional investment made by a minority shareholder pending submission to the Securities and Exchange Commission of the application to increase authorized capital stock of a domestic subsidiary.

Unappropriated retained earnings increased by 19% on account of the Group's net income for the period, net of the cash dividends paid.

The share in net income of a domestic subsidiaries where non-controlling stockholders hold stake, coupled with the additional investment made by a minority shareholder, translated to a 14% increase in the balance of non-controlling interests.

Unaudited Financial Position as at September 30, 2016 vs Audited December 31, 2015

Cash and cash equivalents dropped by 27% mainly as a result of expansion-related expenditures.

Trade and other receivables - net decreased by 24% versus December 2015 due to collection of peak season sales, combined with the Group's continued efforts to improve receivables' days level.

Inventories grew by 32% mainly due to SMFI's importation of certain major raw materials for feeds, usage of which will commence in the fourth quarter of 2016, and the purposive build-up of other major raw materials to support the expected increase in volume during Christmas season.

Higher cost to produce growing poultry livestock and increased cost of imported cattle resulted in 10% increase in current biological assets.

Prepaid expenses and other current assets was 35% lower versus year-end 2015 given higher amount of input taxes resulting from increased level of payables to third party service providers in December 2015. These, in turn, were applied against output taxes payable in the first quarter of 2016. The application of fourth quarter 2015 creditable withholding taxes against income tax liabilities in April 2016 also contributed to the drop in prepaid expenses and other current assets as higher sales revenues are generated by the Group during Christmas holiday season.

Investment property - net grew by 6% due to additional foreclosed property of a subsidiary.

The Group's expansion projects increased property, plant and equipment - net by 25%.

Other noncurrent assets dropped by 25% mainly due to impairment provision on certain non-operating assets.

Additional short-term borrowings to finance capital expenditure requirements resulted in 29% increase in notes payable.

Income tax payable was 50% lower versus year-end 2015 level as provision for income tax in the fourth quarter of 2015, being the peak period for the Group, was higher than the set-up for the third quarter of 2016.

The 9% increase in current maturities of long-term debt was the effect of the translation adjustment on a foreign subsidiary's loan.

Other noncurrent liabilities declined by 45% due to payment of retirement contribution.

The decrease in appropriated retained earnings and the corresponding increase in unappropriated retained earnings in the amount of P3.2 billion were mainly due to the reversal of the retained earnings appropriations made by certain domestic subsidiaries. Contributing also to the increase in the unappropriated retained earnings was the Group's net income recognized for the first nine months of 2016, net of the cash dividends paid.

The 5% decline in the balance of non-controlling interests was mainly due to the cash dividend declaration by a domestic subsidiary where non-controlling stockholders hold stake.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
	Unaudited 2017	**Unaudited 2016**
	(in Millions)	
Net cash flows provided by operating activities	P8,836.7	P3,408.0
Net cash flows used in investing activities	(10,482.3)	(5,377.9)
Net cash flows used in financing activities	(1,410.4)	(517.7)

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:

	September 30	
	Unaudited 2017	**Unaudited 2016**
	(in Millions)	
Acquisitions of property, plant and equipment	(P8,220.4)	(P3,848.4)
Increase in noncurrent biological assets and other noncurrent assets	(2,270.1)	(1,653.6)
Proceeds from sale of investment property and property and equipment	8.2	124.1

Net cash used in financing activities consist of the following:

	September 30	
	Unaudited 2017	**Unaudited 2016**
	(in Millions)	
Availments of notes payable	P103,413.7	P82,972.3
Payments of notes payable	(103,585.4)	(81,955.1)
Cash dividends paid	(1,387.2)	(1,534.9)
Increase in non-controlling interests	88.5	-
Deposit for future stock subscription of a non-controlling shareholder	60.0	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P1.5 million) and (P2.3 million) on September 30, 2017 and 2016, 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 September 2017	Audited December 2016
Liquidity:		
Current Ratio	1.47	1.73
Solvency:		
Debt to Equity Ratio	0.60	0.55
Asset to Equity Ratio	1.60	1.55
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	20.36%	19.65%
Interest Rate Coverage Ratio	82.80	64.57

KPI	Unaudited Period Ended September 2017	Unaudited Period Ended September 2016
Operating Efficiency:		
Volume Growth	3.60%	5.85%
Revenue Growth	4.80%	5.20%
Operating Margin	7.99%	6.97%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) -1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) -1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting; excluding cash dividends paid to preferred shareholders*

** *Excluding preferred capital stock and related additional paid-in capital*