

CR02257-2018

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17**  
**OF THE SECURITIES REGULATION CODE AND SECTION 141**  
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended  
Dec 31, 2017
2. SEC Identification Number  
11840
3. BIR Tax Identification No.  
000-100-341-000
4. Exact name of issuer as specified in its charter  
SAN MIGUEL FOOD AND BEVERAGE, INC.
5. Province, country or other jurisdiction of incorporation or organization  
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
23/F The JMT Corporate Condominium , ADB Avenue, Ortigas Center, Pasig City, Metro Manila  
Postal Code  
1605
8. Issuer's telephone number, including area code  
(632) 317-5000
9. Former name or former address, and former fiscal year, if changed since last report  
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (FB)	1,666,670,960
PREFERRED (FBP2)	15,000,000

11. Are any or all of registrant's securities listed on a Stock Exchange?  
☒ Yes      ☐ No  
 If yes, state the name of such stock exchange and the classes of securities listed therein:  
 Philippine Stock Exchange Common and Preferred shares
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☒ Yes      ☐ No

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

☒ Yes      ☐ No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be

made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

P100,500,258,888 as of March 31, 2018

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

☒ Yes      ☐ No

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

N/A

(b) Any information statement filed pursuant to SRC Rule 20

N/A

(c) Any prospectus filed pursuant to SRC Rule 8.1

N/A

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



**San Miguel Food and Beverage, Inc.  
FB**

**PSE Disclosure Form 17-1 - Annual Report  
References: SRC Rule 17 and  
Section 17.2 and 17.8 of the Revised Disclosure Rules**

For the fiscal year ended	Dec 31, 2017
Currency	PHP (In Thousands)

**Balance Sheet**

	Year Ending Dec 31, 2017	Previous Year Ending Dec 31, 2016
<b>Current Assets</b>	44,864,837	40,778,452
<b>Total Assets</b>	81,874,480	67,014,925
<b>Current Liabilities</b>	32,989,249	23,541,897
<b>Total Liabilities</b>	33,726,467	23,828,266
<b>Retained Earnings/(Deficit)</b>	24,124,584	19,410,913
<b>Stockholders' Equity</b>	48,148,013	43,186,659

Stockholders' Equity - Parent	45,905,235	41,350,923
Book Value Per Share	187.15	159.82

**Income Statement**

	Year Ending	Previous Year Ending
	Dec 31, 2017	Dec 31, 2016
Gross Revenue	117,448,552	111,585,561
Gross Expense	107,522,973	102,654,515
Non-Operating Income	116,226	254,525
Non-Operating Expense	223,762	620,508
Income/(Loss) Before Tax	9,818,043	8,565,063
Income Tax Expense	2,911,986	2,589,459
Net Income/(Loss) After Tax	6,906,057	5,975,604
Net Income/(Loss) Attributable to Parent Equity Holder	6,569,279	5,682,272
Earnings/(Loss) Per Share (Basic)	34.32	29
Earnings/(Loss) Per Share (Diluted)	-	-

**Financial Ratios**

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2017	Dec 31, 2016
Liquidity Analysis Ratios:			
Current Ratio or Working Capital Ratio	Current Assets / Current Liabilities	1.36	1.73
Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	0.56	0.8
Solvency Ratio	Total Assets / Total Liabilities	2.43	2.81
Financial Leverage Ratios			
Debt Ratio	Total Debt/Total Assets	0.41	0.36
Debt-to-Equity Ratio	Total Debt/Total Stockholders' Equity	0.7	0.55
Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	100.75	64.57
Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	1.7	1.55
Profitability Ratios			
Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	0.23	0.23
Net Profit Margin	Net Profit / Sales	0.06	0.05
Return on Assets	Net Income / Total Assets	0.08	0.09
Return on Equity	Net Income / Total Stockholders' Equity	0.14	0.14
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	15.41	7.97

**Other Relevant Information**

Please see attached SEC Form 17-A (Annual Report) of the Company filed with the Securities and Exchange Commission on April 13, 2018.

**Filed on behalf by:**

Name	Alexandra Trillana
Designation	AVP & Corporate Secretary

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 317-5450

Company Telephone Number

ANNUAL REPORT

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Month

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Day

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FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Amended Articles Number/Section

Total Amount of Borrowings

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Total No. of Stockholders

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Domestic

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Foreign

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Document I. D.

Cashier

STAMPS

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SEC Number 11840  
File Number

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**SAN MIGUEL FOOD AND BEVERAGE, INC. and  
SUBSIDIARIES**

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(Company's Full Name)

**23<sup>rd</sup> Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City**

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(Company's Address)

**317-5000**

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(Telephone Number)

**December 31**

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(month & day)

**SEC Form 17-A Annual Report**

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Form Type

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Amendment Designation (if applicable)

**December 31, 2017**

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Period Ended Date

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(Secondary License Type and File Number)

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the calendar year ended **December 31, 2017**
2. SEC Identification Number **11840**      3. BIR Tax Identification No. **000-100-341-000**
4. Exact name of issuer as specified in its charter

**SAN MIGUEL FOOD AND BEVERAGE, INC.**

5. **Philippines**  
Province, country or other jurisdiction  
of incorporation or organization
6. \_\_\_\_\_ SEC Use Only  
Industry classification code
7. **23<sup>rd</sup> Floor The JMT Corporate Condominium**  
**ADB Avenue, Ortigas Center, Pasig City**  
Address of principal office
- 1605**  
Postal Code
8. **(02) 317-5000**  
Issuer's telephone number, including area code
9. **SAN MIGUEL PURE FOODS COMPANY INC.**  
Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Stock Issued and Outstanding and Debt Outstanding (As at December 31, 2017)
Common - P 10 par value	166,667,096
Preferred Series 2 - P 10 par value	<u>15,000,000</u>
	181,667,096
Total Liabilities (in '000)	P 33,726,467

11. Are any or all securities listed on the Philippine 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 Series 2 shares**

12. Check whether the issuer:

- a) Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or such shorter period that the registrant was required to file such reports):

Yes ( ☒ ) \_\_\_\_\_ No ( ☐ ) \_\_\_\_\_

- b) Has been subject to such filing requirements for the past 90 days:

Yes ( ☒ ) \_\_\_\_\_ No ( ☐ ) \_\_\_\_\_

13. Aggregate market value (in '000) of the voting stocks held by non-affiliates as at December 31, 2017 and March 31, 2018 were P12,901,162 and P14,705,861, respectively.

#### **Documents incorporated by reference**

14. The following documents are incorporated by reference:

None

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

San Miguel Food and Beverage, Inc., formerly San Miguel Pure Foods Company Inc. (the “Company”) was incorporated in 1956 to engage primarily in the business of manufacturing and marketing of processed meat products. The Company, through its subsidiaries, later on diversified into poultry and livestock operations, feeds and flour milling, dairy and coffee operations, franchising and young animal ration manufacturing, and starting last quarter of 2013, grain terminal handling.

The Company has been listed on the PSE since 1973.

The Company is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers in the Philippines. The Company has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuit and flour-based snacks.

The support of intermediate parent company San Miguel Corporation (SMC) and partnerships with major international companies like United States-based Hormel Foods International Corporation, Singapore-based Super Coffee Corporation Pte Ltd (“SCCPL”) and Indonesia-based PT Hero Intiputra (“Hero”) have given the Company access to the latest technologies and expertise, allowing it to deliver flavor, freshness, safety, quality and value-for-money to its customers.

Major developments in the Company are discussed in Note 5 (Investments in Subsidiaries), Note 14 (Trademarks and Other Intangible Assets), Note 18 (Equity), Note 34 (Other Matters) and Note 35 (Events After the Reporting Date) of the Audited Consolidated Financial Statements, attached hereto as **Annex “E”**, and in the Management’s Discussion and Analysis of Financial Position and Performance attached hereto as **Annex “D”**.

### Products

The Company operates its businesses through the following subsidiaries:

- ***San Miguel Foods, Inc. (SMFI)*** - is a 99.99%-owned subsidiary of the Company and operates the integrated Feeds, and Poultry and Fresh Meats businesses, the Franchising business, the San Miguel Integrated Sales selling and distribution activities, and the Great Food Solutions foodservice business.
  - a) ***Feeds business*** - manufactures and sells different types of feeds to commercial farms and distributors. Internal requirements of SMFI’s combined Poultry and Fresh Meats business are likewise being served by the Feeds business.
  - b) ***Poultry and Fresh Meats business*** - engages in integrated poultry operations and sells live broilers, dressed chicken, cut-ups and cook-easy formats, as well as customized products for export and for domestic foodservice accounts. It also manages fully-integrated operations for pork and beef, and engages in the sale



and distribution of fresh and marinated meats in *Monterey* meat shops located in major supermarkets and cities throughout the country. The business also sells live hogs and supplies the requirements of The Purefoods-Hormel Company, Inc., an affiliate, for the latter's manufacture of meat-based value-added products.

- c) **Franchising business** - engages in franchising operations and was established in September 2011 primarily to strengthen and grow SMFI's retail business model through faster franchise expansion, brand performance improvement and development of new business concepts for retail. Its two (2) retail concepts, namely *San Mig Food Ave.* and *Hungry Juan* roast barbecue outlets, showcase the San Miguel Group's food and beverage products. There are a total of 302 outlets for the two retail concepts operating as at December 31, 2017.
- d) **San Miguel Integrated Sales (SMIS)** - was formed in May 2009 when the receivables, inventories and fixed assets of SMC's Centralized Key Accounts Group were transferred to SMFI. SMIS provides logistics and selling services in the identified modern and general trade, and wet market customers of the value-added businesses of the Company, namely Magnolia, PF-Hormel and SMSCCI.
- e) **Great Food Solutions (GFS)** - engages in the foodservice business and caters to fast food chains, hotels, restaurants, convenience stores and other institutional accounts for their processed meats, poultry, fresh meats, dairy, coffee and flour-based requirements, as well as provides food solutions/recipes and menus.

In July 2016, SMFI incorporated **Foodcrave Marketing, Inc. (FMI)**, a wholly-owned subsidiary with the primary purpose of establishing and maintaining for trial, benchmarking, research, product and market testing purposes, such limited number of stores or other outlets nationwide offering for sale products and services of every kind and description. FMI started commercial operations in March 2017 and has three (3) operating outlets as of December 31, 2017.

- **San Miguel Mills, Inc. (SMMI)** - is a 100%-owned subsidiary of the Company and engages in the manufacture and distribution of flour and bakery ingredients. In September 2011, SMMI formed **Golden Bay Grain Terminal Corporation (GBGTC)** as its wholly-owned subsidiary, whose commercial operations started in September 2013. GBGTC operates and manages a port terminal, and provides general handling services for raw materials in bulk such as unloading, storage, bagging and outloading, among others. In June 2012, SMMI acquired **Cobertson Realty Corporation (CRC)**, which became a wholly-owned subsidiary of SMMI. CRC is a Philippine corporation engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law. In December 2012, CRC's corporate name was changed to **Golden Avenue Corp.** following the necessary approvals of CRC's Board of Directors and stockholders, and the SEC.
- **The Purefoods-Hormel Company, Inc. (PF-Hormel)** - is a 60%-40% joint venture between the Company and Hormel Netherlands B.V., which produces and markets value-added refrigerated processed meats and canned meat products. PF-Hormel's refrigerated processed meats include, among others, hotdogs, cold cuts, hams, bacons, nuggets and other ready-to-eat meat products, while its canned meat products include corned beef, luncheon meats, sausages, meat spreads and canned viands.

- ***Magnolia, Inc. (Magnolia)*** - is a 100%-owned subsidiary of the Company and manufactures and markets butter, margarine, cheese, milk, ice cream, jelly snacks, specialty oils, salad aids flour mixes, snacks and condiments.
- ***PT San Miguel Pure Foods Indonesia (PTSMPI)*** - started as a 49%-51% joint venture between the Company and the Hero Group of Companies and organized in 1995 for the manufacture and distribution of processed meats in Indonesia. In 2004, the Company increased its ownership to 75% following the Hero Group's divestment of its interest in PTSMPI to Lasalle Financial Inc. ("Lasalle"). On February 2, 2010, Lasalle sold and transferred its entire 25% shareholding in PTSMPI to Singapore-based Penderyn Pte Ltd ("Penderyn"). On February 5, 2010, Lasalle, Penderyn and the Company executed an Adherence Agreement pursuant to which Penderyn agreed to observe and perform all obligations of Lasalle under the Joint Venture Agreement relating to PTSMPI. On November 22, 2016, the Company and Penderyn approved the sale and transfer of Penderyn's entire shareholding in PTSMPI to Indonesia-based Hero. On December 13, 2016, said sale and transfer became effective upon the approval of the Ministry of Justice of Indonesia.
- ***San Miguel Super Coffeemix Co., Inc. (SMSCCI)*** - is a 70%-30% joint venture between the Company and Super Coffeemix Manufacturing Ltd (SCML) of Singapore, which started commercial operations in April 2005 by marketing its 3-in-1 regular coffee mixes in the Philippines. Since then, SMSCCI has introduced a good number of products which include a sugar-free line of coffee mixes, 3-in-1 white coffee mix, 3-in-1 *Barako* coffee mix and 3-in-1 premium *Essenso* coffee mix. In November 2009, by virtue of the Deed of Assignment and Deed of Novation of Joint Venture Agreement executed by and among SMSCCI, SCML and SCCPL, SCML assigned and transferred its entire shareholding in SMSCCI to SCCPL, and SCCPL agreed to perform and comply with all obligations of SCML under the Joint Venture Agreement relating to SMSCCI. In June 2017, Jacobs Douwe Egberts Holdings Asia NL B.V. ("JDE") acquired Super Group Pte Ltd, the 100% owner of SCCPL. JDE is a global coffee and tea company based in the Netherlands.
- ***San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)*** - is a company incorporated in the British Virgin Islands in August 1996 as a wholly-owned subsidiary of SMC, through San Miguel Foods and Beverage International Limited (SMFBIL). SMPFI Limited owns 100% of San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN, formerly San Miguel Hormel (VN) Co., Ltd.), a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds, and fresh and processed meats. In December 2006, SMFBIL sold to Hormel Netherlands B.V. (Hormel) its 49% interest in SMPFI Limited. In January 2015, SMPFI Limited became a wholly-owned subsidiary of the Company, through SMPFIL.
- ***San Miguel Pure Foods International, Limited (SMPFIL)*** - is a company incorporated in the British Virgin Islands in February 2007 and is 100%-owned by the Company. In July 2010, the Company, through SMPFIL, acquired SMC's 51% interest (through SMFBIL) in SMPFI Limited. In January 2015, SMPFIL signed an agreement for the purchase from Hormel of the latter's 49% of the issued share capital of SMPFI Limited.
- ***RealSnacks Mfg. Corp.*** - was incorporated in April 2004 as a 100%-owned subsidiary of the Company. However, commercial operations have yet to commence.

The list of products and/or services of the Group is attached hereto as **Annex "A"**.

Amounts of revenue, profitability, and identifiable assets attributable to domestic operations for 2017, 2016 and 2015 follow:

	( in 000's )		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Sales	₱116,479,659	₱110,733,891	₱106,013,206
Operating income	9,943,320	9,010,940	7,680,269
Total Assets	81,380,430	66,461,724	60,268,439

#### Percentage of Sales Contributed by Export Sales

Information as to the relative contribution of the operating segments to total sales is as follows:

	(in 000's)		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Sales	₱117,448,552	₱111,585,561	₱106,860,238
Agro-Industrial	67.03%	66.73%	66.30%
Branded Value-Added	24.77%	24.50%	23.81%
Milling	6.72%	7.40%	8.33%
Others	1.48%	1.37%	1.56%
TOTAL	100.00%	100.00%	100.00%

The consolidated 2017 revenues include P1,296.32 million or about 1.10% in export sales of the Company's several businesses.

#### Distribution Methods of Products and Services

The Group utilizes different modes of distribution depending on the location and how the businesses operate. In general, third party logistics providers are contracted to provide services related to warehousing, transporting and delivery of goods from the businesses' plants and warehouses to the distributors/dealers, depots and meat shops or directly to key retail and institutional customers.

SMIS provides the selling and logistics services needed by the identified modern and general trade customers of the branded value-added businesses of the Company, namely, Magnolia, PF-Hormel and SMSCCI. For certain tertiary channels such as *sari-sari* stores and market stalls, the branded value-added businesses, through SMIS, utilize the services of the distributors for the marketing of their products.

GFS, meanwhile, takes care of selling Poultry, Fresh Meats, SMMI, PF-Hormel, SMSCCI and Magnolia goods to key foodservice customers such as hotels, restaurants, bakeshops, and fast food and pizza chains.

To ensure product availability at all times, the Poultry and Fresh Meats business maintains a sales force to handle selling of their products to major accounts like supermarkets/hypermarkets and meat shops, and engage third party distributors to handle the selling of their products to groceries and wet markets. The Feeds business, on the other hand, largely depends on its strategically located distributors nationwide for the selling and marketing of its products.

SMMI's sales force handles the marketing and selling of flour to large institutional users while its dealers take care of selling flour products to the general trade customers.

#### Development of New Product or Service

The Group does not have any publicly announced new major product that is being developed.

#### Competition

The Company is known in the market for its portfolio of leading and well-recognized brands known for quality, and is regarded as one of the leaders in the food manufacturing industry.

It is estimated that SMFI's Feeds business accounts for about one-fourth of the total commercial feeds industry sales volume and remained to be the leader in the feeds industry. It competes with other major industry players such as Univet Nutrition and Animal Healthcare Co. (UNAHCO), Pilmico Foods Corporation (Pilmico), Philippine Foremost Milling Corporation (Philippine Foremost), Universal Robina Corporation (URC), New Hope Group of China, Charoen Pokphand Foods of Thailand (CPF), and Tateh, as well as with numerous regional feed mill companies and local feed millers, on quality, customer service, distribution network and price. The feed milling industry is a commodity-based industry with most of its major raw materials consisting of commodities such as corn, soybean meal, cassava and feed wheat. Since most feed millers use imported major raw materials, the industry is affected by foreign exchange fluctuations. The industry derives its sales mainly from hog and poultry producers. Majority of local industry players have evolved from merely selling feeds products to offering total value service packages to customers such as technical services, after-harvest payment schemes and volume lock-in programs. In terms of product promotion, some market players aggressively invest in various types of visibility campaigns, the most popular of which is through tri-media placements.

SMFI's Poultry business is considered a major player in its industry group and competes on quality, distribution network and customer service. It faces competition from large integrated producers such as Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Cobb-Vantress Philippines, Inc. and Gama Foods Corp., as well as from numerous smaller independent broiler producers. The poultry industry has commodity characteristics and is subject to frequent changes in demand and supply. Most of the major integrated producers employ contract-growing schemes for the production of live broilers and have likewise engaged in contract breeding and toll dressing arrangements. SMFI Poultry's competitive advantage lies in the areas of breed management, growing efficiencies, sales and distribution network, and customer care. By the end of 2017, there are more than 1,100 *Magnolia Chicken Stations* nationwide that served as the Poultry business' exclusive retail outlets.

SMFI's Fresh Meats business is considered the holder of the largest market share in the Philippine hogs industry among the large commercial farms and is regarded as a major player in the highly fragmented domestic pork and beef markets. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle carcass to buyers. The buyers, in turn, supply hogs to wet markets and supermarkets. While majority of fresh meat sales in the Philippines continue to be made in the more traditional, outdoor wet markets, the Company considers supermarkets selling their own house-brand products as its main competitor. Since fresh meats are regarded as commodity products, the industry's performance greatly depends on the law of supply and demand. Backyard players largely dominate the unbranded fresh meats segment while SMFI's Fresh Meats business, carrying the "*Monterey*" brand, accounts for a larger share

in the branded segment. SMFI Fresh Meats business competes on quality, distribution network and customer service. As at December 31, 2017, there are more than 600 *Monterey* meat shops nationwide distributing quality meats to consumers.

SMMI's Flour business is believed to be the largest producer, seller and distributor of flour in the Philippines. The domestic flour industry, where SMMI belongs, is highly commoditized and sensitive to price movements, and generally characterized by low brand loyalty. SMMI believes that it accounts for the largest market share in the domestic flour industry. It competes on the basis of price, product innovation, quality, customer service and distribution reach. The main competitors of SMMI are Philippine Foremost, Pilmico and URC. Other notable players in the industry are General Milling Corporation, Wellington Flour Mills, RFM Foods Corporation (RFM), Morning Star Flour Milling Corp., Liberty Flour Mills, Philippine Flour Mill and Delta. The industry has also seen the entry of new players such as Atlantic Grains, Asian Grains, New Hope, Great Earth, North Star and Mabuhay Interflour, among others, in the last five years. Meanwhile, Monde Nissin and Agripacific Corporation produce flour exclusively for their respective internal requirements. Competition within the industry is intense due to the prevailing excess capacity (especially with the entry of the new players) and the presence of lower-priced imported flour. Most of the competitors produce only a limited number of flour types such as hard flour for bread products and soft flour for biscuits. SMMI differentiates itself by focusing on the production of more specialized, higher quality and higher-priced flours. On the other hand, the main competitors of GBGTC, a wholly-owned subsidiary of SMMI, are Mariveles Grains Corporation and Mega Subic Grain Terminal. Bulk grain handling terminals compete on service rates and the capability to provide (i) fast vessel discharging to comply with charter party terms and conditions, (ii) adequate storage capacity for bulk meals and grains, and (iii) fast and efficient outloading of grains via trucks, barges, and vessels. Proximity of the grain terminal to the locations where the customers want to bring the grains, as well as the applicable logistical costs, among others, are also factors that customers considered.

The combined shares of PF-Hormel's hotdog brands have positioned the business as the market leader in the hotdogs category. PF-Hormel likewise dominates both the nuggets and the premium segment of corned meats categories. PF-Hormel competes on quality, product innovation, distribution network and customer service. Competitors and competing brands in the Processed Meats business include Foodsphere, Inc. (*CDO*), Virginia Foods, Inc. (*Winner* and *Champion*), Pacific Meat Company, Inc. (*Swift*, *Argentina* and *555*), Meken Food Corporation (*Mekeni*), Frabelle Food Corp. (*Bossing*), Sunpride (*Sunpride*, *Holiday* and *Good Morning*) and the distributors of *Maling*. In recent years, the Processed Meats business of PF-Hormel experienced increased competition both from the established local players, who are employing aggressive pricing and promotion schemes, and from new entrants to the market. To maintain its leadership position, PF-Hormel has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, events venues and schools. Increased demand for out-of-home consumption, consumers' preference for ready-to-eat meals, smaller sizes and mid-priced brands, and the growing demand for healthy products continued to be the prevailing trends in the industry.

Magnolia offers a wide array of products to Filipino consumers and its *Magnolia* brand is recognized as one of the most trusted brands in the country. Magnolia competes in various categories, which include bread spreads such as butter, margarine (refrigerated and non-refrigerated), cheese and salad aids, ready-to-drink milk, jelly-based snacks, specialty oils, ice cream, biscuit and flour-based snacks, flour mixes and condiments. Magnolia caters to both retail and institutional sectors of the market. While brand building is critical to the retail sector, the institutional segment is more price-driven. Magnolia is one of the top players in the butter category alongside Fonterra Brands Philippines, Inc. for *Anchor Butter*. In the refrigerated margarine category where New Zealand Cremery, Inc. (NZC) and RFM also compete, Magnolia's *Dari Crème* and *Buttercup* brands are the market leaders, and collectively account for a

significant market share. Magnolia's *Star Margarine* brand likewise dominates the non-refrigerated margarine category where Malabon Philippines for *Spring*, San Pablo Manufacturing Corporation for *Minola* and AD Gothong Manufacturing Corporation for *Bambi* also compete. In the cheese category, however, Mondelez Philippines, Inc. (formerly Kraft Foods Philippines) is the leading player followed by Magnolia and NZC. Major players in the bread spreads industry continue to reach consumers via tri-media to spur trial and usage for their products, and implemented product downsizing to reduce cash outlay in line with efforts to sustain consumption. The milk industry, on the other hand, has Nestle Philippines, Inc. (Nestle) as the major player with Magnolia following suit. For the jelly-based snacks industry, the main players are Magnolia, Knotsberry Farm and Best Tiwi Food Products. While the ice cream industry is dominated by Unilever RFM Ice Cream, Inc., maker of *Selecta*, and Nestle, Magnolia is considered the fastest growing ice cream brand, particularly in the supermarket channel, with its continued launch of new products supported by advertising and promotion. In the biscuits industry where Magnolia's *La Pacita* brand competes, Monde Nissin Corporation and Rebisco are the major players.

The coffee industry, where one of the players is the Company's coffee business under SMSCCI, is composed of instant coffee, coffee mixes and ready-to-drink coffee. Major competitors and competing brands in the coffee mix segment are Nestlé (*Nescafe*), Tridharma Marketing Corp. (*Kopiko*) and URC (*Great Taste*). Coffee remains to be among the top beverages consumed in the country, and appeals to a much broader market coming from all socio-economic classification demographics.

Major industry players have taken advantage of the growing popularity of the digital medium, thus, the use of social networking sites as alternative in promoting their products.

The Company believes that its competitive strengths will enable it to protect and build on its leadership position in the food industry at the same time sustain the competitiveness of its different businesses. It will continue to improve and introduce quality products and create product differentiation.

#### Purchase of Raw Materials and Supplies

Major suppliers of SMFI's Feeds business for its soybean meal requirements are Singapore-based Louis Dreyfus Commodities Asia Pte. Ltd., Toyota Tsusho Asia Pacific Pte. Ltd. and Bunge Agribusiness Singapore Pte. Ltd. The business' feed wheat requirements are likewise imported mainly from Bunge Agribusiness Singapore Pte. Ltd. Other raw materials are sourced from various local suppliers.

SMFI's Poultry business' breeder stocks are imported mostly from Aviagen and Cobb Vantress Inc., both are agribusiness firms based in U.S.A.

SMFI's Fresh Meats business gets its beef carcass mainly from D' Meter Fields Corporation, a domestic company. On the other hand, majority of its breeding hogs are sourced locally from TOPIGS Philippines, Inc. and PIC Philippines, Inc.

The internal feeds and more than 20% of veterinary medicine requirements of SMFI's Poultry and Fresh Meats business are served by its Feeds business.

SMMI's Flour business imports more than 20% of its wheat requirements from Singapore-based Bunge Agribusiness Singapore Pte. Ltd., Switzerland-based CHS Europe Sarl and U.S.A.-based Columbia Grains International.

PF-Hormel gets its meat requirements from various local suppliers and from affiliate, SMFI. On the other hand, India-based Allanasons Private Limited is considered as the major supplier for PF-Hormel's imported meat requirements.

Magnolia imports its major raw materials, such as cheese curds and anhydrous milk fat, mainly from Fonterra Ingredients Limited (Fonterra) based in New Zealand while the bulk of its oil requirements are sourced from Tap Oil Manufacturing Corp., a domestic company.

SMSCCI imports its coffee mixes mostly from Super Coffeemix Manufacturing Ltd. (Thailand) Company (SCML Thailand).

Except for SMSCCI whose coffee mixes are provided mainly by SCML Thailand, the Company and its other subsidiaries taken as a whole is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, such that, operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

### Customers

The Company and its subsidiaries have a broad market base that includes supermarkets, hypermarkets, grocery stores, cooperative stores, sari-sari stores, convenience stores, warehouse clubs, mini-marts, market stalls, wet market vendors/dealers and commissaries, wholesalers/distributors, commercial farms, animal raisers, buyers of live birds and institutional accounts (*i.e.*, fast food outlets and restaurants, burger and pizza chains, bakeshops/bakeries, hotels, kiosks, snack/biscuit manufacturers, noodle manufacturers, membership clubs, school/office canteens and franchise holders). The Company sells its products in the Philippines through the businesses' respective sales force, and through strategically located partners/distributors/dealers all over the country.

The Company and its subsidiaries taken as a whole is not dependent on a single customer or a few customers the loss of any or more of which would have a material adverse effect on the Group's operations. This allows flexibility in managing the Group's sales activities.

### Transactions with and/or Dependence on related parties

The Group, in the ordinary course of its business, has entered into transactions with affiliates and other related parties. These transactions, which consist principally of sale and/or purchase of goods and/or services as discussed in the foregoing section on Purchase of Raw Materials and Supplies, are also described in Note 27 (Related Party Disclosures) of the Audited Consolidated Financial Statements attached hereto as **Annex "E"**. Transactions with related parties are fair, entered into on an arm's length basis and at market rates.

### Patents, Trademarks, Copyrights, Licenses

Brands, trademarks, patents and other related intellectual property rights used by the Company and its subsidiaries on its principal products in the Philippines and foreign markets, including processed meats, dairy, coffee, food service and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through Monterey Meatshops, Magnolia Chicken Stations and other branded distribution outlets, are either registered or pending registration in the name of the Company or an affiliate company.

The Group regularly renews the registrations of those brand names, related trademarks and other intellectual property rights already registered, which it uses or intends to use, upon expiry of their respective terms. Maintenance and protection of these brands and related intellectual property rights are important to ensuring the Group's distinctive corporate and market identities.

The Group is also responsible for defending against any infringements on its brands or other proprietary rights. In this connection, the Group monitors products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the Group's brands and other proprietary rights. The Group also retains independent external counsels to alert the Company of any such attempts and to enjoin third parties from the use of colorable imitations of the Group's brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition. To monitor the publication for opposition of new trademark applications that may be confusingly similar to its registered marks, the Group regularly coordinates with its independent external counsels and has subscribed to an online trademark watch service.

#### Government Approvals

The Company and its subsidiaries have obtained all necessary permits, licenses and government approvals to manufacture and sell its products.

#### Governmental Regulation

The Company and its subsidiaries have no knowledge of recent or probable governmental regulations, the implementation of which will result in a material adverse effect on the Company and its significant subsidiaries' business or financial position.

Various laws and government agencies in the Philippines regulate the manufacturing, processing, sale and distribution aspects of the Group's businesses. The Company and its subsidiaries are subject to regulation under these laws by the relevant government authorities.

The following are noteworthy laws relevant to the Company:

#### **The Data Privacy Act**

The Data Privacy Act and its Implementing Rules and Regulations ensure the security of personal data and information and impose certain requirements and obligations to entities involved in the processing of personal data. Companies involved in the processing of personal data were required to appoint a Data Protection Officer and adopt a Personal Data Privacy Policy by September 1, 2017. The National Privacy Commission is tasked to administer and implement the provisions of the law and its rules and regulations.

Considering that the Company and its operating subsidiaries are involved in the processing of personal data, be it from customers, suppliers and employees, the Company and its operating subsidiaries appointed a Data Protection Officer and adopted a Personal Data Privacy Policy within the prescribed period. The policy provides for organizational, physical and technical security measures geared towards data protection. It likewise recognizes the rights of the data subject to information, access and rectification of his personal information, among others. It also provides for the procedure to be undertaken in the event of data breaches or security incidents. The policy further requires that all



outsourcing arrangements of the group involving personal data collection, be compliant with the requirements of the law.

### **The Philippine Competition Act**

The Philippine Competition Act was enacted to provide a national competition policy, prohibit anti-competitive agreements, abuse of dominant position, and anti-competitive mergers and acquisitions and establish the Philippine Competition Commission.

The law covers any person or entity engaged in trade, industry or commerce within the Philippines, as well as international trade having direct, substantial and foreseeable effects in the trade, industry or commerce in the Philippines. It prohibits competitors from entering into Anti-Competitive Agreements. It likewise prohibits abuse of dominant position and entering into other agreements with the object or effect of substantially preventing, restricting or lessening competition.

The Philippine Competition Commission is primarily tasked to implement the law and establish its Implementing Rules and Regulations.

### **The Food Safety Act of 2013**

The Food Safety Act of 2013 was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the Department of Agriculture (the “DA”) and the Department of Health (the “DOH”), their pertinent bureaus, and the local government units.

The law aims for a high level of food safety, protection of human life and health in the production and consumption of food, and the protection of consumer interests through fair practices in the food trade. The law provides that the DA and the DOH shall set the mandatory food safety standards, which shall be established on the basis of science, risk analysis, scientific advice from expert bodies, standards of other countries, existing Philippine National Standards and the standards of the Codex Alimentarius Commission, where these exist and are applicable.

Under this law, food business operators are charged with certain responsibilities to prevent, eliminate or reduce risks to consumers. They are further encouraged to implement a Hazard Analysis at Critical Control Points-based system for food safety assurance in their operations.

### **The Foods, Drugs and Devices, and Cosmetics Act**

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the “FDDC Act”), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The Food and Drug Administration (the “FDA”, previously referred to as the Bureau of Food and Drugs) is the governmental agency under the DOH tasked to implement and enforce the FDDC Act.

Pursuant to the FDDC Act, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product it sells in the market.

The DOH also prescribes Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers, the Code on Sanitation of the Philippines, and the Philippine National Standards for Drinking Water.

### **The Consumer Act**

The Consumer Act of the Philippines (the “Consumer Act”) establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of food products. The DOH (which includes the FDA) is the government agency tasked to implement the Consumer Act with respect to food products.

The Consumer Act provides for minimum labeling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public.

### **The Livestock and Poultry Feeds Act**

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the “Livestock and Poultry Feeds Act”), regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the “BAI”) is the governmental office under the DA tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. Further, all commercial feeds must comply with the nutrient standards prescribed by the DA. The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products.

### **The Meat Inspection Code**

The Meat Inspection Code of the Philippines (the “Meat Inspection Code”) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service (the “NMIS”), a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. In this regard, the DA mandates the application of Good Manufacturing Practices in all NMIS accredited meat establishments.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability.

### **The Price Act**

The Price Act covers unbranded basic necessities, such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities, such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. The Price Act is primarily enforced and implemented by the DA and the Department of Trade and Industry in relation to such products.

Under the Price Act, the prices of basic commodities may be automatically frozen or placed under price control in areas declared as disaster areas, under emergency or martial law, or in a state of rebellion or war, for a maximum period of 60 days only. In cases of calamities, emergencies, illegal price

manipulation or when the prevailing prices have risen to unreasonable levels, it is the President of the Philippines who can impose a price ceiling on basic necessities and prime commodities.

### **The Philippine Food Fortification Act**

The Philippine Food Fortification Act of 2000 (the “PFF Act”) provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The FDA is the government agency responsible for the implementation the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and food service establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity.

### Research and Development

The total amount spent by the Company and its subsidiaries on research and development for the years 2017, 2016 and 2015 were P355.51 million, P303.2 million and P419.2 million, respectively. As a percentage of net sales revenues, spending on research and development for the years 2015 to 2017 ranged from 0.3% to 0.4%.

### Cost of Compliance with Environmental Laws

The Company and its subsidiaries incurred about P31.9 million in expenses for environmental compliance for the year 2017. On an annual basis, operating expenses incurred by the Group to comply with environment laws are not significant or material relative to the Company and its subsidiaries’ total cost and revenues.

### Human Resources and Labor Matters

Please see the list of Collective Bargaining Agreements entered into by the Company and its significant subsidiaries with its various employee unions, as well as the Group’s employee headcount by position attached hereto as **Annex “B”**.

The Group does not expect any significant change in its existing workforce level within the ensuing 12 months.

Majority of the subsidiaries of the Company have funded, noncontributory defined benefit retirement plans covering all of its permanent employees.

Under the retirement plans of the subsidiaries, all regular monthly-paid and daily paid employees of the subsidiaries are eligible members. Eligible members who reach the age of 60 are entitled to compulsory retirement. The Company’s subsidiaries may, however, at their own discretion, continue an employee’s membership under the plan on a year-to-year basis after he/she reaches compulsory retirement. Eligible members may opt to retire earlier after they have completed at least 15 years of credited service with the Company’s subsidiaries. Upon retirement, eligible members will receive a certain percent of their final monthly pay for each year of their credited service. The amount varies depending on the years of service of the retiree. Eligible members may receive certain resignation benefits if they resign before they reach an eligible retirement date if they have completed at least five years of service with the Company’s

subsidiaries. The retirement plans are further described in Note 26 (Retirement Plans) of the Audited Consolidated Financial Statements of the Company attached hereto as **Annex “E”**.

### Major Business Risks

The major business risks the Company and its subsidiaries have to contend with are the following:

#### *Competition Risks*

The Group operates in highly competitive environments. New and existing competitors can erode the Group’s competitive advantage through the introduction of new products, improvement of product quality, increase in production efficiency, new and updated technologies, costs reductions and the reconfiguration of the industry’s value chain. The Group has responded with the corresponding introduction of new products in practically all businesses, improvement in product propositions and packaging, and redefinition of the distribution system of its products. The Company’s Corporate Innovations Group under Magnolia helped primarily in identifying breakthrough ideas for new product categories, synergize marketing initiatives of the Group and develop innovation opportunities.

#### *Operational Risks*

The facilities and operations of the Group could be disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, port congestions, logistical constraints, outbreaks of animal diseases, such as Porcine Epidemic Diarrhea, Porcine Reproductive and Respiratory Syndrome and Actinobacillus Pleuropneumonia for hogs, and Fowl Cholera, Newcastle Disease, bird flu or H1N1 influenza for broilers, and other unforeseen circumstances and problems. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and unplanned inventory build-up, all of which could have a material adverse effect on the business, financial condition and results of operations of the Group.

The Group undertakes necessary precautions to minimize impact of any significant operational problems in its subsidiaries through effective maintenance practices. To manage occasional outbreaks of animal diseases, the Group adopted preventive measures like farm sanitation and strict bio-security to minimize, if not totally avoid, the risks from these diseases.

#### *Legal and Regulatory Risks*

The businesses and operations of the Group are subject to a number of national and local laws, rules and regulations governing several different industries in the Philippines and in other countries where it conducts its businesses. The Group is also subject to various taxes, duties and tariffs.

In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the Group to pass-on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition and results of operations of the Group.

The Group is in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. Further, the Group maintains a strong compliance culture and has processes in place in order to manage adherence to laws and regulations. In the event that the Group becomes involved in future litigation or

other proceedings or be held responsible in any future litigation and proceedings, the Group endeavors to amicably settle the legal proceedings and in the event of any adverse ruling or decision, diligently exhaust all legal remedies available to it.

### *Social and Cultural Risks*

The ability of the Group to successfully develop and launch new products and maintain demand for existing products depends on the acceptance of such products by consumers and their purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. A significant decrease in disposable income levels or consumer purchasing power of the target markets could materially and adversely affect the financial position and financial performance of the Group. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends or leisure activity patterns. Concerns about health effects due to negative dietary effects or other factors may also affect consumer purchasing patterns for the food products. If the marketing strategies of the Group are not successful or do not respond timely or effectively to changes in consumer preferences, the business and prospects of the Group could be materially and adversely affected.

### *Raw Materials Sourcing Risks*

The products and businesses of the Group depend on the availability of raw materials. Most of these raw materials, including some critical raw materials, are procured from third parties. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

Movements in the supply of global crops may affect prices of raw materials such as wheat. The Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies.

Alternative sources of raw materials are used in the Group's operations to avoid and manage risks on unstable supply and higher costs.

The Group, whenever necessary, 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.

### *Financial Risks*

In the course of its operations, the Group is exposed to financial risks, namely:

#### 1. Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

#### 2. Foreign Currency Risk

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.

### 3. 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.

### 4. Credit Risk

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

Prudent fund management is employed to manage exposure to changes in earnings as a result of fluctuations in interest and foreign currency rates.

The Group uses derivative instruments to manage its exchange rate risk exposure.

Liquidity risks are managed to ensure adequate liquidity of the Group through monitoring of accounts receivables, inventory, loans and payables. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

Please refer to Note 30 of the Audited Consolidated Financial Statements attached hereto as **Annex “E”** for the discussion of the Group’s Financial Risk and Capital Management Objectives and Policies.

Other risk factors that could materially and adversely affect the business, financial condition and results of operations of the Group are discussed in more detail in the Prospectus dated February 11, 2015 (filed with the SEC, disclosed to the PSE and uploaded in the Company’s website), relating to the offer and sale by way of a primary offer in the Philippines (the “Offer”) of up to 15,000,000 cumulative, non-voting, non-participating, non-convertible Peso-denominated perpetual preferred shares with a par value of P10.00 each (the “Preferred Series 2 Shares”).

## Item 2. Properties

A summary of information on the various properties owned and leased by the Group, including the conditions thereof, are attached hereto as **Annex “C”**.

The Group owns its major facilities, *i.e.*, flour mills, grain terminal, meats processing plants, ice cream plant, and butter, margarine and cheese plant. Its Feeds, Poultry and Fresh Meats operations, including the poultry dressing operation, however, are mostly contracted out to third parties.

The Company and its subsidiaries have no principal properties that are subject to a mortgage, lien or encumbrance.

There are no imminent acquisitions of any material property, which cannot be funded by the working capital of the Group.

For additional information on the Group’s properties, please refer to Note 12 (Investment Property) and Note 13 (Property, Plant and Equipment) of the Audited Consolidated Financial Statements attached hereto as **Annex “E”**.

### Item 3. Legal Proceedings

The Company or any of its subsidiaries is not a party to, and its properties are not the subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the Company or its results of operations.

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the Company's shareholders, through the solicitation of proxies or otherwise, during the fourth quarter of 2017.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common equity is traded in the PSE.

The Company's high and low prices for each quarter of the last two fiscal years, are as follows:

Quarter	2017		2017		2016		2016	
	Common		Preferred Series 2		Common		Preferred Series 2	
	High	Low	High	Low	High	Low	High	Low
1 <sup>st</sup>	288.00	225.00	1,037.00	1,010.00	174.00	112.10	1,048.00	1,006.00
2 <sup>nd</sup>	321.00	287.20	1,025.00	1,008.00	250.00	173.00	1,038.00	1,008.00
3 <sup>rd</sup>	317.80	300.60	1,025.00	1,010.00	232.00	207.80	1,045.00	1,010.00
4 <sup>th</sup>	640.00	306.00	1,020.00	1,000.00	235.00	215.00	1,040.00	1,015.00

The closing prices as of the latest practicable trading date are:

Common shares	P 603.00	March 28, 2018
Preferred Series 2 shares	P 1,000.00	March 28, 2018

The approximate numbers of shareholders of the Company as of December 31, 2017, are as follows:

Common shareholders	131
Preferred Series 2 shareholders	108

The Company's top 20 stockholders of (a) common shares, (b) preferred series 2 shares, and (c) combined common and preferred series 2 shares, as at December 31, 2017 are as follows:

## (a) Common shares

Rank	Stockholder Name	Total Common Shares	% of Outstanding Common Shares
1	San Miguel Corporation	142,279,267	85.367340%
2	PCD Nominee Corporation (Filipino)	13,493,846	8.096287%
3	PCD Nominee Corporation (Non-Filipino)	8,326,155	4.995680%
4	Q-Tech Alliance Holdings, Inc.	2,051,140	1.230681%
5	Saturn Cement Marketing Corp.	416,720	0.250031%
6	PFC ESOP/ESOWN Account	27,110	0.016266%
7	Cecille Y. Ortigas	22,861	0.013717%
8	Ramon L. Chua	7,714	0.004628%
9	Jorge Ramos	6,924	0.004154%
10	Ana Maria De Olondriz Ortigas	5,531	0.003319%
11	Pacifico De Ocampo	4,324	0.002594%
12	William Pendarvis	2,937	0.001762%
13	Teodoro Quijano	1,413	0.000848%
14	Principe P. Reyes	1,413	0.000848%
15	Maxima A. Senga	1,305	0.000783%
16	Francis Fernan	1,224	0.000734%
17	Honesto B. Buendia	1,176	0.000706%
18	Roseller A. Mendoza	1,000	0.000600%
19	Jose Avellana	980	0.000588%
20	Peter F. Metcalf	741	0.000445%

## (b) Preferred Series 2 shares

Rank	Stockholder Name	Total Preferred Series 2 Shares	% of Outstanding Preferred Series 2 Shares
1	PCD Nominee Corporation (Filipino)	14,083,055	93.887033%
2	San Miguel Corporation Retirement Plan FIP	200,000	1.333333%
3	San Miguel Brewery Inc. Retirement Plan	200,000	1.333333%
4	PCD Nominee Corporation (Non-Filipino)	88,021	0.586807%
5	Knights of Columbus Fraternal Association of the Philippines, Inc.	50,000	0.333333%
6	San Miguel Foods, Inc. Retirement Plan	50,000	0.333333%
7	San Miguel Yamamura Packaging Corporation Retirement Plan	50,000	0.333333%
8	First Life Financial Co., Inc.	40,000	0.266667%
9	Antonette S. Rosca or Anthony R. De Zuzuarregui	40,000	0.266667%
10	San Miguel Corporation Retirement Plan STP	21,500	0.143333%
11	Jayson E. Cayabyab or Jessica E. Cayabyab	10,500	0.070000%
12	Anthony R. De Zuzuarregui or Krizia Katrina T. De Zuzuarregui	10,000	0.066667%



13	Buenaventura P. Quijano or Sofie P. Quijano	10,000	0.066667%
14	Maria Teresa Q. Lim or Wilson B. Quimpo or Manuel B. Quimpo or Merly Q. Banting or Myrna Q. Ng	10,000	0.066667%
15	Leo F. Hernandez or Sylvia B. Hernandez	10,000	0.066667%
16	Teresita L. Pe or Jinky P. Tobiano or Julio C. Tobiano	7,000	0.046667%
17	Ma. Concepcion D. G. Asuncion or Mon Eduardo D.G. Asuncion or Martha Elaine D. G. Asuncion or Miguel Enrico D. G. Asuncion or Marco Evelio D. G. Asuncion	6,500	0.043333%
18	Rowena A. Ganibo	6,000	0.040000%
19	Enrique LL Yusingco	5,250	0.035000%
20	Safeway Customs Brokerage, Inc.	5,000	0.033333%

## (c) Combined Common and Preferred Series 2 shares

Rank	Stockholder Name	No. of Shares			% vs
		Common	Preferred Series 2	Total	Outstanding Shares
1	San Miguel Corporation	142,279,267	0	142,279,267	78.318677%
2	PCD Nominee Corporation (Filipino)	13,493,846	14,083,055	27,576,901	15.179910%
3	PCD Nominee Corporation (Non-Filipino)	8,326,155	88,021	8,414,176	4.631646%
4	Q-Tech Alliance Holdings, Inc.	2,051,140	0	2,051,140	1.129065%
5	Saturn Cement Marketing Corp.	416,720	0	416,720	0.229387%
6	San Miguel Corporation Retirement Plan FIP	0	200,000	200,000	0.110091%
7	San Miguel Brewery, Inc. Retirement Plan	0	200,000	200,000	0.110091%
8	San Miguel Foods, Inc. Retirement Plan	0	50,000	50,000	0.027523%
9	San Miguel Yamamura Packaging Corporation Retirement Plan	0	50,000	50,000	0.027523%
10	Knights of Columbus Fraternal Association of the Philippines, Inc.	0	50,000	50,000	0.027523%
11	Antonette S. Rosca or Anthony R. De Zuzuarregui	0	40,000	40,000	0.022018%
12	First Life Financial Co., Inc.	0	40,000	40,000	0.022018%
13	PFC ESOP/ESOWN Account	27,110	0	27,110	0.014923%
14	Cecille Y. Ortigas	22,861	0	22,861	0.012584%
15	San Miguel Corporation Retirement Plan STP	0	21,500	21,500	0.011835%
16	Jayson E. Cayabyab or Jessica E. Cayabyab	0	10,500	10,500	0.005780%

17	Leo F. Hernandez or Sylvia B. Hernandez	0	10,000	10,000	0.005505%
18	Anthony R. De Zuzuarregui or Krizia Katrina T. De Zuzuarregui	0	10,000	10,000	0.005505%
19	Buenaventura P. Quijano or Sofie P. Quijano	0	10,000	10,000	0.005505%
20	Maria Teresa Q. Lim or Wilson B. Quimpo or Manuel B. Quimpo or Merly Q. Banting or Myrna Q. Ng	0	10,000	10,000	0.005505%

As of December 31, 2017, the Company had a public float of 14.61%, as reflected in the Public Ownership Report for the said period.

Dividends may be declared at the discretion of the Board and will depend upon the Company's future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations both at the parent and subsidiary level and other factors the Board may deem relevant.

Since March 30, 2010, the cash dividend policy of the Company has been to distribute cash dividends to the holders of its common shares in an amount equivalent to approximately 70% of the prior year's recurring net income. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. The Company expects that the dividend distributions shall be made over the four quarters of the year, subject to the applicable laws and regulations and based on the recommendation of the Board. In considering dividend declarations for each quarter, the Board has in the past and will in the future, take into consideration dividend payments on the preferred shares, and other factors, such as the implementation of business plans, debt service requirements, debt covenant restrictions, funding of new investments, major capital expenditure requirements, appropriate reserves and working capital, among others.

Under the terms of the preferred shares offer of the Company in February 2011 (the "PFP Shares"), as and if dividends are declared by the Board, dividends on the preferred shares shall be at a fixed rate of 8.0% per annum applicable up to the fifth anniversary of the issue date of such shares. The Company redeemed all outstanding PFP Shares in March 2015.

Under the terms of the perpetual series 2 preferred shares offer of the Company in February 2015 (the "PFP2 Shares"), as and if dividends are declared by the Board, dividends on the PFP2 Shares shall be at a fixed rate of 5.6569% per annum applicable up to the fifth anniversary of the issue date of such shares.

In accordance with the foregoing, the Company paid out cash dividends as follows for the last three fiscal years:

<u>Fiscal Year</u>	<u>Stock Type</u>	<u>Aggregate Amount (per share)</u>
2017	Common PFP2	P 6.00 P56.56900
2016	Common PFP2	P 5.70 P56.56900

2015	Common	P 4.80
	PFP	P20.00
	PFP2	P42.42675

There were no securities sold by the Company within the past three (3) years that were not registered under the Securities Regulation Code.

In January 2011, the SEC approved the Company's Registration Statement covering the registration of 15,000,000 PFP Shares with a par value of P10.00 per share, and the PSE approved, subject to certain conditions, the application of the Company to list the PFP Shares to cover the Company's follow-on preferred shares offering at an offer price of P1,000.00 per share. In February 2011, on the basis of the SEC order for the registration of the Company's PFP Shares and Certificate of Permit to Offer Securities for Sale, the Company offered for subscription by the public the PFP Shares with 5-year maturity at an offer price of P1,000.00 per share. The dividend rate was set at 8% per annum. The offering was fully subscribed and the PFP Shares were issued on March 3, 2011, its listing date on the PSE.

On November 23, 2012, SMC completed the secondary offering of a portion of its common shares in the Company following the crossing of the shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares, at a price of P240.00 per share. The completion of the secondary offering resulted in the increase of the Company's public float to more than 10%, in compliance with the minimum public ownership requirement of the PSE for listed companies.

On February 3, 2015, the Board of Directors of the Company approved the redemption of the PFP Shares issued by the Company on March 3, 2011 at the redemption price of P1,000.00 per share. The redemption price and all accumulated unpaid cash dividends, were paid on March 3, 2015 to the preferred stockholders of record as of February 17, 2015, in accordance with the Notice of Redemption, including guidelines for the payment of the redemption proceeds issued by the Company for the purpose.

Later in the same month of February 2015, the SEC approved the Company's Registration Statement covering the registration of 15,000,000 PFP2 Shares with a par value of P10.00 per share, and the PSE approved, subject to certain conditions, the application of the Company to list the PFP2 Shares to cover the Company's preferred shares offering at an offer price of P1,000.00 per share. On the basis of the SEC order for the registration of the Company's PFP2 Shares and Certificate of Permit to Offer Securities for Sale, the Company offered for subscription by the public the PFP2 Shares with 5-year maturity at an offer price of P1,000.00 per share. The dividend rate was set at 5.6569% per annum. The offering was fully subscribed and the PFP2 Shares were issued on March 12, 2015, its listing date on the PSE.

On January 18, 2018, in line with the consolidation of the food and beverage businesses of SMC under the Company, the stockholders approved the following amendments to the Company's Articles of Incorporation: (a) the expansion of the primary purpose in the Second Article to include the engagement in the alcoholic and non-alcoholic beverage business, (b) the change of the corporate name in the First Article to "San Miguel Food and Beverage, Inc., (c) the reduction of par value of common shares in the Seventh Article to P1.00 per share, and (d) the denial of pre-emptive rights for issuances or dispositions of all common shares in the Seventh Article (collectively, the "First Amendments").

On the same date, the stockholders approved the increase in authorized capital stock of the Company, to be filed with the SEC after the latter's approval of the First Amendments, which increase shall be P9,540,000,000 comprised of 9,540,000,000 common shares with a par value of P1.00 per share (the "Increase"), including the amendment of the Seventh Article to reflect the Increase. From the Increase, approximately 44% thereof or 4,242,549,130 common shares with a par value of P1.00 per share (the

“New Shares”) will be subscribed by SMC. As a result of the Increase, the Company’s authorized capital stock will be P12,000,000,000 divided into 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.

Likewise on the same date, the stockholders approved the acquisition by the Company of SMC’s common shares in San Miguel Brewery, Inc. and Ginebra San Miguel, Inc. (the “Exchange Shares”), with the combined value of P336,349,294,992.60, as consideration for the issuance by the Company of the New Shares from the Increase.

Finally, also on the same date, the stockholders approved the listing on the PSE of the additional issued common shares resulting from the reduction of par value of shares, as well as the New Shares to be issued to SMC.

All the foregoing items approved by the stockholders at its special meeting on January 18, 2018, were earlier approved by the Board of Directors at its special meeting on November 3, 2017.

On March 23, 2018, the SEC approved the First Amendments by virtue of the Certificate of Filing of Amended Articles of Incorporation of San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.) issued on the said date, a copy of which the Company received on March 27, 2018.

On April 5, 2018, SMC and the Company signed a Deed of Exchange of Shares pursuant to which SMC shall transfer to the Company the Exchange Shares, and in consideration therefor, the Company shall issue New Shares from the Increase, subject to and conditioned upon the approval by the SEC of the Increase.

Description of the securities of the Company may be found in Note 18 (Equity) of the Audited Consolidated Financial Statements, attached hereto as **Annex “E”**.

As stated in Note 18 of the Audited Consolidated Financial Statements, the Company’s accumulated earnings in subsidiaries are not available for dividend declaration until declared by the respective investees.

## **Item 6. Management’s Discussion and Analysis or Plan of Operation**

The information required by Item 6 may be found on **Annex “D”** attached hereto.

## **Item 7. Financial Statements (FS) and Other Documents Required to be filed with the FS under SRC Rule 68, as Amended**

The 2017 Audited Consolidated Financial Statements of the Company (with the external auditors’ PTR, name of certifying partner and address) and Statement of Management’s Responsibility are attached hereto as **Annex “E”** with the Supplementary Schedules (including the reports of the external auditors on the Supplementary Schedules) attached hereto as **Annex “E-1”**.

The additional components of the Audited Consolidated Financial Statements together with their corresponding separate report of the external auditors, required to be filed with the Audited Consolidated Financial Statements under SRC Rule 68, as amended, are hereto attached as follows:

Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 4 [c])	<b>Annex “E-2”</b>
Tabular schedule of standards and interpretations as of reporting date (Part 4 [I]), and a Map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, parent company, subsidiaries or co-subsidiaries, and associates (Part 4 [h])	<b>Annex “E-3”</b>
Schedule of indicators of financial soundness	<b>Annex “E-4”</b>

## **Item 8. Information on Independent Accountant and Other Related Matters**

### **A. External Audit Fees and Services**

The stockholders approve the appointment of the Company’s external auditor. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that non-audit services rendered shall not impair or derogate the independence of the external auditor or violate SEC regulations.

The accounting firm of Reyes Tacandong & Co. (“RT & Co.”) served as the Company’s external auditor for fiscal year 2017. RT & Co. has been the external auditor of the Company since fiscal year 2015. 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.

Fees billed for the services rendered by RT & Co. to the Company in connection with the Company’s annual financial statements and other statutory and regulatory filings for 2016 and 2017 amounted to about P1.5 million and P1.6 million, respectively.

The Company’s external auditor is rotated or changed every five years or earlier, or the signing partner of the auditing firm engaged by the Company is changed every five years or earlier, in accordance with SEC rules and regulations. For fiscal year 2018, upon the endorsement of the Audit Committee, the Board of Directors approved the nomination of the appointment of R.G. Manabat & Co. (“RGM & Co.”) as the Company’s external auditor, for the further approval of the stockholders at the annual stockholders’ meeting. As mentioned, the change in external auditor is pursuant to SEC rules and regulations to change external auditor not later than every five years, as well as for good corporate governance purposes.

Upon approval by the stockholders of the appointment of RGM & Co. as external auditor of the Company for fiscal year 2018, RGM & Co. will present its proposed 2018 audit plan, including engagement deliverables, audit timetable, key risk areas and audit considerations, to the Audit Committee for approval at the next regular meeting of the Committee. The audit fees will depend on the approved plan. The Company will make the necessary disclosures on this matter in accordance with applicable requirements.

RGM & Co. served as the Company’s external auditor for fiscal year 2014. The change in the external auditor of the Company from RGM & Co. to RT & Co. in the 2015 annual stockholders’ meeting of the Company was in accordance with SEC rules and regulations, as well as the recommendation to change external auditor not later than every five years, for good corporate governance purposes.

For the Company's offering of PFP2 Shares in February 2015, the fees billed for the services rendered by RGM & Co. amounted to around P1.8 million. No other services were rendered by RGM & Co. to the Company.

#### B. 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.

### **PART III – CONTROL AND COMPENSATION INFORMATION**

#### **Item 9. Directors and Executive Officers of the Issuer**

The names of the directors and key executive officers of the Company that served as such in the year 2017, and their respective ages, periods of service, qualifications, directorships in other reporting companies and positions in the last five (5) years, are as follows:

##### Board of Directors

**Eduardo M. Cojuangco, Jr.**, Filipino, 82, is the Chairman and a non-executive director of the Company, a position he has held since May 22, 2001, and Chairman of the Company's Executive Committee (since April 25, 2002). He is also Chairman and Chief Executive Officer of listed companies San Miguel Corporation and Ginebra San Miguel, Inc. He is likewise the Chairman of listed company Petron Corporation, and private companies ECJ and Sons Agricultural Enterprises, Inc., Northern Cement Corporation and the Eduardo Cojuangco, Jr. Foundation, Inc.; and a Director of Caiñaman Farms, Inc. Mr. Cojuangco attended the College of Agriculture, University of the Philippines, as well as California Polytechnic College in San Luis Obispo, U.S.A. Among others, he was conferred the Degree of Doctor of Economics *Honoris Causa* by the University of Mindanao and the Degree of Doctor of Agri-Business *Honoris Causa* by the Tarlac College of Agriculture.

**Ramon S. Ang**, Filipino, 64, is the Vice Chairman of the Company, a position he has held since May 13, 2011. He has been a non-executive director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002). He was a member of the former Executive Compensation Committee (from November 2013 to May 2017). He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of listed company San Miguel Corporation; Chairman and President of SMC Global Power Holdings Corp., San Miguel Properties, Inc. and San Miguel Energy Corporation; Chairman of listed company Eagle Cement Corporation, public company San Miguel Brewery Inc., and private companies San Miguel Yamamura Packaging Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Anchor Insurance Brokerage Corporation, San Miguel Brewery Hong Kong Limited, Philippine Diamond Hotel & Resort, Inc. and Manila North Harbour Port, Inc. He is also the President and Chief Executive Officer of listed companies Top Frontier Investment Holdings Inc. and Petron Corporation, and private company Northern Cement Corporation; and President of listed company Ginebra San Miguel, Inc. Mr. Ang holds a Bachelor's Degree in Mechanical Engineering from Far Eastern University.

**Francisco S. Alejo III**, Filipino, 69, is the President of the Company, a position he has held since May 20, 2005. He has been an executive director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002). He was a member of the former Nomination and Hearing Committee (from May 2005 to May 2017). He also holds the following positions: Chairman and President of RealSnacks Mfg. Corp.; Chairman of Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Pure Foods (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp. and Philippine Prime Meat Marketing Corporation; Vice Chairman of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc. and Magnolia Inc.; Director of listed company Ginebra San Miguel, Inc. and private companies San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International, Limited (BVI); and President Commissioner of PT San Miguel Pure Foods Indonesia. Mr. Alejo holds a Bachelor's Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

**Menardo R. Jimenez**, Filipino, 85, has been a non-executive director of the Company since April 25, 2002. He is a member of its Audit Committee (since June 27, 2008), Related Party Transactions Committee (since May 12, 2017) and Board Risk Oversight Committee (since May 12, 2017). He was Chairman of the former Executive Compensation Committee (from May 2006 to May 2017) and Nomination and Hearing Committee (from November 2013 to May 2017). Mr. Jimenez is a Director of listed company San Miguel Corporation and private company Magnolia Inc. He likewise holds the following positions: Chairman of Majent Management and Development Corporation, Coffee Bean and Tea Leaf Holdings, Inc. and Meedson Properties Corporation. Mr. Jimenez holds a Bachelor's Degree in Commerce from Far Eastern University and is a Certified Public Accountant. Among others, he was conferred Doctorates in Business Management *Honoris Causa* by University of Pangasinan and *Pamantasan ng Lungsod ng Maynila*.

**Mario C. Garcia**, Filipino, 66, has been a non-executive director of the Company since November 4, 2009. He is also a Director of San Miguel Properties, Inc.; Member of International Reporters and Editors Association, USA; and Consultant of Radio Affairs, *Pulis Ng Bayan* (PNP). He was a former TV Host of *Kapihan Ng Bayan*, NBN-4 and *Comentaryo*, NBN-4, a Radio Host/Anchorman of *Uno Por Dos*, PBS *Radyo Ng Bayan*, Interim National President of KBP Society of Broadcast Journalists; and Director of the Subic Bay Metropolitan Authority. He was previously a Director and Vice Chairman of Quezon City Red Cross, Vice President for Programming and Operations and Station Manager of Radio Veritas. Mr. Garcia holds a Bachelor's Degree in Journalism from Lyceum of the Philippines.

**Rolando L. Macasaet**, Filipino, 57, has been a non-executive director of the Company since November 8, 2016. Mr. Macasaet is currently the General Manager and a Director of TransAire Development Holdings Corporation, a Director of Private Infrastructure Development Corporation and a Consultant in the Office of the President, San Miguel Corporation. He was previously General Manager of El Montanas (resort developer, from 2013 to 2014). Mr. Macasaet holds a Bachelor of Science Degree in Business Economics *Cum Laude* and Master's Degree in Business Administration – Honors Program from the University of the Philippines, Diliman. He also completed an Executive Program in Finance at Columbia University, New York, and a Program for Management Development at Harvard University, Boston.

**Romela M. Bengzon**, Filipino, 57, is a nominee for non-executive director of the Company. Atty. Bengzon is currently a director of listed company Petron Corporation and private companies Petron Marketing Corporation, Webforge Philippines, Diezmo Realty Inc. and Geonobel Philippines. She is Managing Partner of the Bengzon Law Firm. Atty. Bengzon holds a Bachelor of Arts Degree in Political Science from University of the Philippines and a Bachelor of Laws Degree from Ateneo de Manila University School of Law. She is also a member of the New York State Bar.

**Carmelo L. Santiago**, Filipino, 75, has been an independent and non-executive director of the Company since August 12, 2010. He is the Chairman of the Company's Audit Committee (since November 7, 2013) and a member of the Company's Corporate Governance Committee (since May 12, 2017), Related Party Transactions Committee (since May 12, 2017) and Board Risk Oversight Committee (since May 12, 2017). Mr. Santiago was Chairman of the former Nomination and Hearing Committee (from May 2011 to May 2017) and was a member of the former Executive Compensation Committee (from June 2008 to May 2017). He is an Independent Director of public company San Miguel Brewery Inc.; and Director of Terbo Concept, Inc. and Aurora Pacific Economic Zone and Freeport Authority. He is also an Independent Non-Executive Director of San Miguel Brewery Hong Kong Limited. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and the founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from University of the East.

**Minita V. Chico-Nazario**, Filipino, 78, has been an independent and non-executive director of the Company since May 8, 2015. She is also Chairperson of the Company's Corporate Governance Committee (since May 12, 2017) and Related Party Transactions Committee (since May 12, 2017), and member of the Company's Executive Committee and Audit Committee (since May 8, 2015). Justice Nazario is likewise currently an Independent Director of listed companies Top Frontier Investment Holdings Inc. and Ginebra San Miguel, Inc., and private company San Miguel Properties, Inc. She is also a Legal Consultant of Union Bank of the Philippines, United Coconut Planters Bank and Philippine Investment One & Two, Inc. She is the incumbent Dean of the College of Law of the University of Perpetual Help in Las Piñas City. She has served the Judiciary in various capacities for 47 years, with the last position she held being Associate Justice of the Supreme Court (from February 2004 to December 2009). Justice Nazario holds a Bachelor of Arts and a Bachelor of Laws Degree from University of the Philippines and is a member of the New York State Bar.

**Ricardo C. Marquez**, Filipino, 57, has been an independent and non-executive director of the Company since March 16, 2017. He is also Chairman of the Company's Board Risk Oversight Committee (since May 12, 2017) and a member of the Company's Audit Committee (since March 16, 2017), Corporate Governance Committee (since May 12, 2017) and Related Party Transactions Committee (since May 12, 2017). Gen. Marquez is likewise currently an Independent Director of listed company Eagle Cement Corporation and a Director of the Public Safety Mutual Benefit Fund, Inc. He was previously Chairman of the Board of said corporation (July 2015 to June 2016). Gen. Marquez held several positions in the Philippine National Police (PNP). In the last five years, he was Chief of the PNP (from July 2015 to June 2016), Director of Operations (from December 2013 to July 2015), Regional Director, Police Regional Office 1 (from January to December 2013), Deputy Director for Operations (from March 2012 to January 2013), and Executive Officer, Directorate for Investigation and Detective Management (from August 2010 to March 2012). Gen. Marquez holds a Bachelor of Science Degree from the Philippine Military Academy, and a Masters in Management Degree from Philippine Christian University.

#### Key Executive Officers

**Zenaida M. Postrado**, Filipino, 62, is the Vice President, Treasurer and Chief Finance Officer of the Company (since May 2005). She also holds the following positions: Director and Treasurer of The Purefoods-Hormel Company, Inc., San Miguel Mills, Inc., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., Sugarland Corporation, Golden Food & Dairy Creamery Corporation and RealSnacks Mfg. Corp. and Foodcrave Marketing, Inc.; Treasurer of San Miguel Foods, Inc., Magnolia Inc. and San Miguel Super Coffeemix Co., Inc.; Commissioner of PT San Miguel Pure Foods Indonesia; and Director of San Miguel Pure Foods Investment (BVI) Limited and San Miguel Pure Foods (Vn) Co.,



Ltd. Before joining the Company, Ms. Postrado was an auditor at SGV & Co. Ms. Postrado holds a Bachelor's Degree in Business Administration Major in Accountancy from University of the East.

**Alexandra Bengson Trillana**, Filipino, 44, is the Corporate Secretary (since September 15, 2010) and Compliance Officer (since August 8, 2016) of the Company. She is also Assistant Vice President and General Counsel; and Corporate Secretary of San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia, Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, Golden Bay Grain Terminal Corporation, Golden Avenue Corp., RealSnacks Mfg. Corp. and Foodcrave Marketing, Inc. She was previously Assistant Corporate Secretary of the Company (from April 26, 2004 to September 14, 2010); and Senior Manager – Commercial Transactions of San Miguel Corporation's Office of the General Counsel (from August 2005 to December 2009). Atty. Trillana holds a Bachelor's Degree in Commerce Major in Legal Management from De La Salle University and a Juris Doctor Degree from Ateneo de Manila University School of Law.

**Florentino C. Policarpio**, Filipino, 67, is the President and General Manager of San Miguel Mills, Inc. He is also the President of Golden Bay Grain Terminal Corporation and Golden Avenue Corp.; and Director of RealSnacks Mfg. Corp. and Foodcrave Marketing, Inc. He was previously General Manager of San Miguel Foods, Inc.'s Flour Business (2002-2005) and Group Manager of the Purchasing Department of the Company. Mr. Policarpio holds a Bachelor of Arts Degree Major in Economics and a Bachelor of Science Degree Major in Accountancy from De La Salle University.

**Rita Imelda B. Palabyab**, Filipino, 58, is the President of San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc. and San Miguel Super Coffeemix Co., Inc. and Head of the Branded Business Cluster of the Company. She is also President of Foodcrave Marketing, Inc. and Director of Golden Bay Grain Terminal Corporation and PT San Miguel Pure Foods Indonesia. She was previously General Manager of San Miguel Foods, Inc.'s Poultry Business (from April 2004 to January 2010). Ms. Palabyab holds a Bachelor's Degree in Mathematics from University of the Philippines.

**Raul B. Nazareno**, Filipino, 62, is the President of Magnolia Inc., Golden Food & Dairy Creamery Corporation and Sugarland Corporation, and Head of the International Business Cluster and Branded Business Cluster Exports Business of the Company. He is also President Director of PT San Miguel Pure Foods Indonesia, and Director of The Purefoods-Hormel company, Inc., San Miguel Super Coffeemix Co., Inc., Foodcrave Marketing, Inc., San Miguel Pure Foods International, Limited, San Miguel Pure Foods Investment (BVI) Limited and San Miguel Pure Foods (Vn) Co., Ltd. He was previously General Manager of The Purefoods-Hormel Company, Inc. (from May 2010 to July 2012) and the President of the Philippine operations of Burger King. Mr. Nazareno holds a Bachelor's Degree in Agribusiness Management from University of the Philippines and a Master's Degree in Business Management from Asian Institute of Management.

**Helene Z. Pontejos**, Filipino, 63, is the Vice President and General Manager of the Foodservice Business of the Company under San Miguel Foods, Inc. – Great Food Solutions. She was previously Assistant Vice President and General Manager of the Company's Great Food Solutions division (from January 2006 to March 2012) and Culinary Services Manager, San Miguel Foods, Inc. (March 2002 to December 2005). Ms. Pontejos holds a Bachelor of Science Degree in Foods and Nutrition from College of the Holy Spirit, and she pursued graduate studies in Food Service Administration at University of the Philippines.

**Oscar R. Sañez**, Filipino, 60, is the Vice President and Corporate Affairs Group Head of the Company. He is Commissioner of PT San Miguel Pure Foods Indonesia, and Director of Foodcrave Marketing, Inc., Golden Food and Dairy Creamery Corporation and RealSnacks Mfg. Corp. He was previously President and Chief Executive Officer of the Business Process Association of the Philippines (from February 2007

to February 2011). Mr. Sañez holds a Bachelor's Degree in Business Administration Major in Marketing Management from University of the Philippines.

**Jennifer T. Tan**, Filipino, 55, is the Vice President and Business Procurement Group Head of the Company. She was previously Vice President and Senior Procurement Manager of the Company (from April 2008 to May 2012) and Assistant Vice President and Senior Procurement Manager of the Corporate Procurement Unit attached to the Office of the President and Chief Operating Officer of San Miguel Corporation (from November 2003 to March 2008). Ms. Tan holds a Bachelor's Degree in Commerce Major in Accounting from College of the Holy Spirit.

**Rodolfo M. Abaya**, Filipino, 55, is the Vice President and Division Human Resources Manager of the Company. Mr. Abaya is also a Director of Golden Ave. Corp. Prior to joining the Company, he held various HR positions in Procter & Gamble Philippines from 1987 to 2007 the last of which being P&G Global Business Services Asia HR Associate Director. He was also HR Partner Leader and Project Executive, Country HR Operations of IBM Global Process Services (from 2011 to 2014) and HR Leader of Concentrix Philippines (from February to July 2014). Mr. Abaya holds a Bachelor of Arts Degree in Economics from University of the Philippines.

#### Board Attendance

In 2017, the Board of Directors held seven (7) meetings. The attendance of the directors in these meetings and in the 2017 annual stockholders' meeting ("ASM") is as follows:

Director	Date of Board Meeting, All in Year 2017						
	Feb. 2	Mar. 16	May 9	May 12	Aug. 9	Nov. 3	Nov. 9
Eduardo M. Cojuangco, Jr.	Present	Present	Present	Absent	Present	Present	Present
Ramon S. Ang	Present	Present	Present	Present	Present	Present	Present
Francisco S. Alejo III	Present	Present	Absent	Present	Present	Present	Present
Menardo R. Jimenez	Present	Present	Present	Present	Present	Present	Present
Mario C. Garcia	Present	Present	Present	Present	Present	Present	Present
Rolando L. Macasaet	Present	Present	Present	Present	Present	Absent	Present
Carmelo L. Santiago <i>Independent Director</i>	Present	Present	Present	Present	Present	Present	Present
Minita V. Chico-Nazario <i>Independent Director</i>	Present	Present	Present	Present	Present	Present	Present
Ricardo C. Marquez <i>Independent Director</i> (First elected March 16, 2017)	N/A	Present	Present	Present	Present	Present	Present

	<b>Date of Stockholders' Meeting</b>
<b>Director</b>	<b>May 12, 2017 (Annual Stockholders' Meeting)</b>
Eduardo M. Cojuangco, Jr. ( <i>Chairman</i> )	Absent
Ramon S. Ang ( <i>Vice Chairman</i> )	Present
Francisco S. Alejo III ( <i>President</i> )	Present
Menardo R. Jimenez	Present
Mario C. Garcia	Present
Rolando L. Macasaet	Present
Carmelo L. Santiago ( <i>Independent Director</i> )	Present
Minita V. Chico-Nazario ( <i>Independent Director</i> )	Present
Ricardo C. Marquez ( <i>Independent Director</i> )	Present

#### Term of Office

Pursuant to the Company's Amended By-Laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office for a term of one (1) year and until the election and qualification of their successors, unless he resigns, dies or is removed prior to such election.

The Company's Amended By-Laws provide that the annual stockholders' meeting shall be held on the second Friday of May of every year.

#### Independent Directors

The independent directors of the Company in 2017 are Mr. Carmelo L. Santiago, Justice Minita V. Chico-Nazario and Ricardo C. Marquez. All the independent directors of the Company are independent of its management and substantial shareholders.

#### Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

#### Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

### Intermediate Parent Company

As of December 31, 2017, SMC owns and controls 142,279,267 common shares comprising 85.37% of the outstanding capital stock of the Company entitled to vote.

### Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

### **Item 10. Executive Compensation**

The aggregate compensation paid or incurred during the last two (2) fiscal years, as well as those estimated to be paid in the ensuing fiscal year, to the Company's President and senior executive officers are as follows:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the President and Senior Executive Officers <sup>1</sup>	2018 (estimated)	P 72.6 Million	P 17.4 Million	P 5.4 Million	P 95.4 Million
	2017	P 70.3 Million	P 37.6 Million	P 3.7 Million	P 111.6 Million
	2016	P 68.0 Million	P 27.6 Million	P 3.7 Million	P 99.3 Million
All other officers and directors as a group unnamed	2018 (estimated)	P 209.7 Million	P 60.2 Million	P 56.9 Million	P 326.8 Million

<sup>1</sup> The President and senior executive officers of the Company for 2018 and 2017 are as follows: Francisco S. Alejo III, Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Oscar R. Sañez. The President and senior executive officers of the Company for 2016 are as follows: Francisco S. Alejo III, Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Ma. Soledad E. Olives. Ms. Olives retired from the Company effective July 31, 2016 as previously disclosed.

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
	2017	P185.2 Million	P 95.0 Million	P 49.2 Million	P329.4 Million
	2016	P170.3 Million	P 71.0 Million	P 46.3 Million	P287.6 Million
TOTAL	2018 (estimated)	P 282.3 Million	P 77.6 Million	P 62.3 Million	P 422.2 Million
	2017	P255.5 Million	P132.6 Million	P 52.9 Million	P441.0 Million
	2016	P238.3 Million	P 98.6 Million	P 50.0 Million	P386.9 Million

Article II, Section 5 of the Amended By-laws of the Company provides that the members of the Board of Directors shall each be entitled to a director's fee in the amount to be fixed by the stockholders at a regular or special meeting duly called for that purpose.

In 2017, each director received a per diem of P10,000.00 per attendance at Board and Board Committee meetings of the Company.

In the year 2017, the Company paid a total of P1,090,000 in per diem allowances to the Board of Directors, as follows:

Executive Director	P 80,000
Non-executive Directors (other than Independent Directors)	500,000
Independent Directors	<u>510,000</u>
TOTAL	<u>P1,090,000</u>

There are no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, by the Company for services rendered during the last fiscal year, and the ensuing fiscal year.

There are no employment contracts between the Company and its executive officers.

There are neither compensatory plans nor arrangements with respect to an executive officer that results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

There are no outstanding warrants or options held by the Company's President, named executive officers and all directors and officers as a group.

### Item 11. Security Ownership of Certain Beneficial Owners and Management

Owners of record of more than 5% of the Company's voting<sup>2</sup> securities as at December 31, 2017 are as follows:

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 <sup>3</sup> SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550, parent company of issuer	San Miguel Corporation	Filipino	142,279,267	78.3187%
Common	PCD Nominee Corporation <sup>4</sup> 37th Floor, Tower One, Enterprise	Various <sup>5</sup>	Filipino	13,493,846	15.1799%

<sup>2</sup> The holders of common shares have the right to vote on all matters requiring stockholders' approval. The holders of preferred 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, 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.

<sup>3</sup> The Board of Directors of 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.

<sup>4</sup> 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.

<sup>5</sup> None of the holders of the Company's common or preferred shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's shares.

<b>Title of Class</b>	<b>Name, Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
Preferred Series 2	Center Ayala Ave. corner Paseo de Roxas Ave., Makati City, no relation to issuer			14,083,055	

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 directors and key officers of the Company as of December 31, 2017:

<b>Title of Class</b>	<b>Name of Owner</b>	<b>Amount and Nature of Ownership</b>	<b>Citizenship</b>	<b>Total No. of Shares</b>
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	33,001 (0.03%)
		23,000 (Beneficial)		
Preferred Series 2		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 (0.00%)
Preferred Series 2		10,000 (Beneficial)		
Preferred	Alexandra Bengson Trillana	1,000 (Beneficial)	Filipino	1,000 (0.00%)

The aggregate number of shares owned of record by the Chairman, President, key officers and directors as a group as of December 31, 2017 is 44,509 shares or approximately 0.0245% of the Company's outstanding capital stock.

The aggregate number of shares owned by all officers and directors as a group as of December 31, 2017 is 62,809 shares or approximately 0.0346% of the Company's outstanding capital stock.

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.

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

Since the beginning of the last fiscal year, there were no arrangements, which resulted in a change in control of the Company.

## **Item 12. Certain Relationships and Related Transactions**

The Company recognizes that under the law, in order for a contract with an officer not to be voidable, the contract should be fair and reasonable under the circumstances and should have been previously authorized by the Board of Directors. The Company also recognizes that under the law, in order for a contract with a director not to be voidable, the presence of such director in the board meeting in which the contract was approved should not be necessary to constitute a quorum for such meeting, and the vote of such director should not be necessary for the approval of the contract. The contract should also be fair and reasonable under the circumstances.

The Company observes an arm's length policy in its dealings with related parties. Any transactions with affiliates and other related parties are entered into in the ordinary course of business. These transactions consist principally of sale and/or purchase of goods and/or services. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates. The Company does not enter into related party transactions that can be classified as financial assistance granted by the Company to subsidiary or affiliate entities.

Moreover, consistent with the Manual that all material information, i.e., anything that could potentially affect share price, shall be publicly disclosed, related party transactions are fully disclosed in the Company's notes to its audited consolidated financial statements. See Note 5 (Investments in Subsidiaries), Note 8 (Trade and Other Receivables), Note 12 (Investment Property), Note 13 (Property, Plant and Equipment), Note 14 (Trademarks and Other Intangible Assets), Note 15 (Notes Payable), Note 16 (Trade Payables and Other Current Liabilities), Note 27 (Related Party Disclosures), Note 32 (Employee Stock Purchase Plan) and Note 34 (Other Matters) of the Audited Consolidated Financial Statements of the Company attached hereto as **Annex "E"**, as well as the discussion under *Transactions with and/or Dependence on related parties* in Item 1 (Business) of this report.

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) that are not in the ordinary course of business of the Company. There have been no complaints, disputes or problems regarding related party transactions of the Company.

The Human Resources Division of the Company ensures the implementation of the Company's policy against conflict of interests and the misuse of inside and proprietary information throughout the organization. Employees are required to promptly disclose any business and family-related interest or involvement, which, by nature, may directly or indirectly conflict with the interests of the Company to ensure that such potential conflicts of interest are surfaced and brought to the attention of management for resolution.



## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

Please refer to the 2017 SEC Integrated Annual Corporate Governance Report (I-ACGR) of the Company, which shall be submitted to the SEC on or before May 30, 2018 and posted on the Company's corporate website [www.sanmiguelpurefoods.com](http://www.sanmiguelpurefoods.com) within five business days from submission to the SEC, in compliance with SEC Memorandum Circular No. 15, series of 2017.

## PART V – EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

#### (A) Exhibits

The 2017 Audited Consolidated Financial Statements and the Supplementary Schedules (including the reports of the external auditors on the Supplementary Schedules) are attached hereto as **Annex “E”**.

#### (B) Reports on SEC Form 17-C

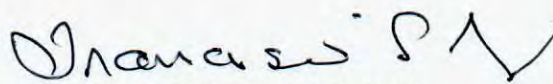
The Report on each Form 17-C filed during the last 12-month period covered by this report is attached hereto as **Annex “F”**.

## SIGNATURES

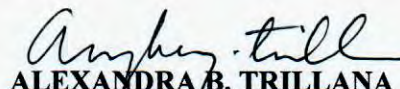
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on MAR 14 2018

By:

  
**EDUARDO M. COJUANGCO, JR.**  
Chairman

  
**FRANCISCO S. ALEJO III**  
President

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

  
**ALEXANDRA B. TRILLANA**  
Corporate Secretary

  
**FLORENCE P. PAVON**  
Finance Manager

**SUBSCRIBED AND SWORN** to before me this MAR 14 2018 day of       , 2018 affiants exhibiting to me their Passports, as follows:

<u>NAME</u>	<u>PASSPORT NO.</u>	<u>EXPIRY DATE</u>	<u>PLACE OF ISSUE</u>
Eduardo M. Cojuangco, Jr.	EC-3542719	February 26, 2020	Manila
Francisco S. Alejo III	P1657246A	January 17, 2022	NCR East
Zenaida M. Postrado	EC-0671128	March 25, 2019	Manila
Alexandra B. Trillana	EC-0224777	February 4, 2019	Manila
Florence P. Pavon	EC-4652723	July 13, 2020	Manila

Page No. 120;  
Doc. No. 25;  
Book No. 15;  
Series of 2018.

  
**MA. FRANCESCA Q. BALTAZAR**  
Notary Public for Pasig City  
Commission until 31 December 2018  
22<sup>nd</sup> Floor, JMT Corporate Condominium,  
ADB Ave., Ortigas Center, Pasig City  
APPT No. 64 (2017-2018)/Roll No. 57174  
IBP No. 024946; 1/9/2018; Makati City  
PTR No. 3867077; 1/10/2018; Pasig City  
MCLE Compliance No. V-0012795; 12/9/2015

## Annex “A”

### San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.) and Subsidiaries

#### List of Products and/or Services as at December 31, 2017

#### *San Miguel Foods, Inc.*

#### POULTRY

##### Live Broilers

##### Dressed Chicken (Wholes)

- Magnolia Fresh Chicken (Fresh Chilled & Frozen)
- Magnolia Spring Chicken (Fresh Chilled & Frozen)
- Magnolia Jumbo Chicken (Fresh & Frozen)
- Magnolia Free Range Chicken (Fresh & Frozen)
- Supermarket House Brands

##### Cut-ups

- Magnolia Chicken Cut-ups (Fresh Chilled & Frozen)
- Magnolia Chicken Station Cut-ups
- Magnolia Chicken Station Convenient Cuts
- Magnolia Chicken Smart Packs
- Magnolia Chicken Breast & Leg Meat Yakitori

##### Marinated

- Magnolia Chicken Station Timplados products (Freshly-made at the Magnolia Chicken Stations)
- Magnolia Chicken 3-Way (Ginger-Based, Gata-Based, and Tomato-Based Chicken Cut-ups)

##### Giblets

- Magnolia Chicken Giblets (Fresh & Frozen Liver and Gizzard)

##### Institutional

- Whole Chicken
- Customized Bone-in Cut-ups and Deboned Fillets

##### Export

- Magnolia Chicken Griller (Fresh & Frozen)
- Chicken Yakitori (Frozen)
- Bone-in Chicken Cut-ups (Frozen)
- Deboned Chicken Fillets (Frozen)
- Marinated Products (Frozen)

##### Brown Eggs

- Magnolia Cage-Free Brown Eggs

## FRESH MEATS

Live Hogs

Wholesale Cuts

Pork

Hog Carcass

Boxed Primal Parts

Beef

Beef Forequarters

Beef Hindquarters

Boxed Primal Cuts

Retail Cuts

Monterey Primal Cuts (Pork, Beef)

Monterey Cut Ups (Pork, Beef)

Individual Portion Cuts (cut and packed in the Monterey Meatshops)

Smart Packs (centrally cut and packed in the plant)

Monterey Ready-To-Cook Marinated Meats /Timplados (Pork, Beef)

Monterey Meatshop produced Timplados

Pork BBQ Tenderloin Skewers (produced in the plant)

Pork Blood 3-Way (produced in the plant)

Montana Cut Ups (Pork, Beef)

Individual Portion Cuts (cut and packed inside store)

Montana Ready-To-Cook Marinated Meats /Timplados (Pork, Beef)

Heat and Eat Line

Crispy Pata

Lechon Kawali

## FEEDS

Animal & Aquatic Feeds

Hog Feeds

B-MEG Premium Hog Pellets

B-MEG Expert Hog Feeds

B-MEG Essential Hog Feeds

B-MEG Bonanza Hog Pellets

Jumbo Hog Mash

Pureblend Hog Pellets

Poultry Feeds

B-MEG Premium Layer

B-MEG Essential Layer

B-MEG Expert Layer

B-MEG Layer

B-MEG Integra

B-MEG Integra Powermaxx

B-MEG Derby Ace

B-MEG Alertone Mixed Grains

B-MEG Premium Broiler

B-MEG Essential Broiler

- B-MEG Broiler
- B-MEG Pigeon Pellets
- Jumbo Pullet Developer Pellets
- Pureblend Broiler
- Pureblend Special Broiler
- Pureblend Layer

#### Duck Feeds

- B-MEG Duck Feeds
- Pureblend Duck Feeds

#### Quail & Ostrich Feeds

- Pureblend Quail

#### Calf and Horse Feeds

- B-MEG Horse Pellets

#### Aquatic Feeds

- B-MEG Super Premium Floating Feeds
- B-MEG Premium Tilapia Pellets
- B-MEG Premium Bangus Pellets
- B-MEG Aquaration
- B-MEG Expert Fish Feeds
- B-MEG Prize Catch Floating Feeds
- B-MEG Prize Catch Slow Sinking Feeds
- B-MEG Nutrifloat Floating Feeds
- Pinoy Sinking Pellets
- Pinoy Floating Feeds

#### Concentrate

- B-MEG Hog Concentrate
- B-MEG Poultry Concentrate
- B-MEG Layer Concentrate
- B-MEG Pullet Concentrate
- B-MEG Cattle Concentrate
- B-MEG Goat Concentrate
- B-MEG Pig Protein Concentrate
- B-MEG Broiler Protein Concentrate
- B-MEG Essential Intramix Pro Hog Gestating Concentrate
- B-MEG Essential Intramix Plus Poultry Concentrate

#### Animal Health Care Veterinary Medicines

##### Anti-infective - Water Soluble Preparation

- Amoxil-V
- Doxa-V
- Dox-C-Lin
- Dox-C-Trin Premium
- B-MEG Integra Trimax

Supplement/Vitamins - Water Soluble Preparation

B-MEG Integra Multimax  
 B-MEG Integra Electromax  
 Elec-V  
 Multi-V  
 Multivitamins +Minerals + Amino Acids

Anti-Inflammatory/Anti-pyretic - Water Soluble Preparation

Para-V

Dewormer/Anti-nematodal - Water Soluble Preparation

Bulatigok SD  
 Bulatigok

Disinfectant

Protect Plus

Injectables

Alamycin LA  
 Iron-Vet  
 Norovit

Oral Preparation

Worm-X  
 B-Meg Integra Trifast

Antibiotics Premixes

Tiamulin 10%

Liquid Preparation

Vitamin ADE  
 Vitamin E 60%  
 Norfloxacin 20%  
 Multi-V Plus  
 Doxa-V Plus  
 Cotri-V Plus

***San Miguel Mills, Inc. (SMMI)***

**Hard Wheat Flour**

King  
 Emperor  
 Monarch  
 Pacific  
 Harina de Pan de Sal

**Soft Wheat Flour**

Queen  
 Countess  
 Red Dragon

### **Specialty Flour**

- Baron All-Purpose Flour
- Baron Siopao Flour
- Princess Cake Flour
- Golden Wheat Whole Wheat Flour (Coarse & Fine)

### **Customized Flour**

- Royal Premium Noodle Flour
- Prince Miki Flour
- Prince Noodle Flour
- Prince Wrapper Flour

### **Premixes**

- Mix' n Bake
  - Brownie Mix
  - Chiffon Cake Mix
  - Crinkle Mix
  - Pan de Sal Mix
- Mix' n Steam
  - Puto Mix
- Mix' n Fry
  - Yeast Raised Doughnut Mix

### **Bakery Ingredients**

- Bake Best Bread Improver
- Bake Best Baking Powder
- Emperor's Best Instant Yeast

### **Services**

- Product Customization
- Recipe Development
- Technical Training in Flour Applications

### ***Golden Bay Grain Terminal Corporation (a wholly-owned subsidiary of SMMI)***

Unloading, storage, bagging, and outloading services for raw materials in bulk

### ***The Purefoods-Hormel Company, Inc.***

#### **REFRIGERATED MEATS**

##### **Hotdogs**

- Purefoods Tender Juicy Hotdog (Classic, Jumbo, Kingsize, Cocktail, Cheesedog, Chick 'n Cheese, Chick 'n Bacon, Chick 'n Chili, Giant)
- Purefoods Star Hotdog (Regular, Cheezeedog, Chick n' Tasty)
- Higante Hotdog (Regular, Cheesedog)
- Purefoods Deli Franks (German, Angus Beef, Turkey, Cheese, Spicy Pepper Beef)
- Purefoods Deli Sausages (Bockwurst, Schublig, Hungarian Cheese)
- Purefoods Beefies Hotdog (Regular, Lots-a-Cheese)
- Vida Hotdog

**Breaded, Battered & Fried**

Purefoods Chicken Nuggets (Chicken Breast Nuggets, Crazy Cut Shapes, Letters & Numbers, Bacon & Cheese, Cheese Overload, Drummets, Chicken Popcorn)  
 Purefoods Fish Nuggets  
 Star Chicken Nuggets  
 Star Burger Bites

**Bacon**

Purefoods Bacon (Honeycured, Honey Roast, Spicy Barbecue, Maple-flavored, Bacon Crumble)  
 Hormel Black Label Bacon  
 Vida Bacon

**Sliced Hams**

Purefoods Ham (Sweet, Cooked, Chicken)  
 Purefoods Fiesta Ham Slices  
 Star Sweet Ham  
 Vida Sweet Ham

**Whole Hams**

Purefoods Fiesta Ham (Whole, Pre-Sliced)  
 Purefoods Jamon de Bola  
 Purefoods Chinese Ham  
 Purefoods Brick Ham  
 Purefoods Pear-Shaped Ham  
 Jamon Royale  
 Purefoods Chicken Ham

**Ready-to-Cook/Ready-to-Eat**

Monterey Sisig  
 Purefoods Crispy Fried Chicken

**Native Line**

Purefoods Tocino (Classic, Sweet Chili, Chicken)  
 Purefoods Longanisa (Hamonado, Recado, Chicken)

**GROCERY PRODUCTS****Corned Meats**

Purefoods Corned Beef (Classic, Hash, Chili Garlic)  
 Chunkee Corned Beef  
 Star Corned Beef  
 Star Carne Norte  
 Star Corned Beef Chunky Cheese  
 Purefoods Pulled Pork BBQ (Pinoy Style, Asian Style)



**Luncheon Meats**

Purefoods Luncheon Meat (Classic, BBQ, Chili Pepper, Bacon, Cheese)  
 Purefoods Chinese Style Luncheon Meat  
 Purefoods Chicken Luncheon Meat  
 Star Beef Loaf  
 Star Meat Loaf

**Sausages**

Purefoods Vienna Sausage  
 Purefoods Chicken Vienna Sausage

**Canned Viands**

Purefoods Sizzling Delights (Sisig, Chicken Sisig, Bopis)  
 Ulam King (Asado, Caldereta, Lechon Paksiw, Menudo, Mechado)

**Canned Chicken**

Purefoods Sexy Chix (Arrabiata, Adobo, Guiltless Broth, Hainanese Style)  
 Purefoods Chicken (Broth, Afritada, Homestyle-Curry, Hot and Spicy)

**Specialty Grocery Products**

Purefoods Liver Spread  
 Purefoods Spaghetti Meat Sauce  
 Purefoods Chorizo Filipino

***Magnolia, Inc.*****BUTTER, MARGARINE & CHEESE****Butter**

Magnolia Gold Butter (Salted, Unsalted) and Magnolia Gold Spreadable  
 Magnolia Butter-licious!

**Refrigerated Margarine**

Dari Creme (Classic, Buttermilk) and Dari Creme Spreadable  
 Buttercup  
 Baker's Best

**Non-Refrigerated Margarine**

Star Margarine (Classic, Sweet Blend, Garlic, Vanilla, Chocolate, Caramel)  
 Delicious Margarine  
 Magnolia Non-Refrigerated Margarine (Food Service)  
 Primex Shortening (Food Service)

**Cheese**

Magnolia Cheezee (Block, Spread, Squeeze - Cheddar, Pimiento)  
 Daily Quezo  
 Magnolia Quickmelt  
 Magnolia Cheddar  
 Magnolia Cream Cheese (Block, Spread)  
 Magnolia Christmas Cheeseballs (Quezo de Bola, Gold Edam) - Seasonal  
 Magnolia Food Service Cheese

**JELLY SNACKS AND DESSERTS**

JellYace Fruiteez  
 JellYace Bites  
 JellYace Suki Pack  
 Magnolia Jelly Sip (Strawberry, Apple, Orange, Grape and Mango)

**MILK**

Magnolia Chocolait  
 Magnolia Fresh Milk  
 Magnolia Low Fat Milk  
 Magnolia Full Cream Milk  
 Magnolia Non Fat Milk

**SPECIALTY OILS**

Magnolia Nutri-Oil Coconut Oil  
 Magnolia Nutri-Oil Palm Oil  
 Pure Oil

**ALL-PURPOSE CREAM**

Magnolia All-Purpose Cream

**SALAD AIDS**

Magnolia Real Mayonnaise  
 Magnolia Sandwich Spread  
 Magnolia All-Purpose Dressing

**FLOUR MIXES**

Magnolia Pancake  
 Magnolia All Purpose Flour  
 Magnolia Chocolate Cake Mix Collection  
 Magnolia Fast and Easy Bake Cake Mixes

**ICE CREAM****Bulk Ice Cream**

Magnolia Classic (Vanilla, Chocolate, Strawberry, Ube, Mango)  
 Magnolia Gold Label (Double Dutch, Rocky Road, Cookies N' Cream)  
 Magnolia Best of the Phillippines (Avocado Peanut Butter, Ube Caramelized Sugar, Mango  
   Dark Chocolate, Avocado Macchiato, Mango Salted Caramel, Banoffee Pie, Strawberry  
   Crumble Pie, Ube Keso, Macapuno Langka, Mangoes and Cream, Kesong Puti)  
 Magnolia Sorbetes (Tsokolate, Keso)

**Frozen Novelties**

Magnolia Spinner (Chocolate, Vanilla, Caramel, Hazelnut)  
 Magnolia Cookie Monster (Chocolate, Choco Hazelnut, Caramel)  
 Magnolia Party Cups (Vanilla, Chocolate)  
 Magnolia Popsies (Orange Chill, Choco Cool, Strawberry-Grape, Honeydew-Watermelon,  
 Melon-Mango, Strawberry-Choco)  
 Magnolia Twin Popsies (Orange, Chocolate)  
 Magnolia Pinipig Crunch (Vanilla Crisp, Sweet Corn)  
 Magnolia Creations Stick Ice Cream (Macapuno Langka, Coffee Crumble, Kesong Puti)

**San Miguel Gold Label (For Export)**

SMGL Mellorine  
 SMGL Frozen Dessert  
 SMGL Ice Confectionery

**SNACKS****Traditional**

Prima Toast  
 Egg Cracklet  
 Mamon Tostado  
 Broas  
 Puto Seko  
 Camachile  
 Ligaya

**Cookies**

Pasencia  
 Pasencia White  
 Butter Cookies  
 Raisin Cookies  
 Choco Chika  
 Oat Cookies

**Crackers**

Graham Crackers  
 Supreme Flakes  
 Club Crackers  
 Graham Filled Sandwich

**Assorted**

Holiday Mix  
 Famous Five

**CONDIMENTS**

Wandah! All-Around Mix (Cheese, Gravy)

***San Miguel Super Coffeemix Co., Inc.***

**COFFEE**

San Mig Super Coffee Regular 3-in-1 Coffeemix - Original  
 San Mig Super Coffee Sugar Free 3-in-1 Coffeemix - Mild, Original & Strong  
 San Mig Super Coffee - White  
 San Mig Super Coffee - Barako  
 San Mig Coffee 100% Premium Instant Black Coffee (Food Service)  
 Essenso  
 Coffee and Me (Food Service)

***San Miguel Foods, Inc. - Great Food Solutions (GFS)***

**Value-Added Meats**

Pizza Toppings  
 Slices  
 Specialties (Sauces & Ready-to-Serve Viands)  
 Hotdogs and Deli

**Dairy, Fats and Oils**

Butter, Margarine and Cheese  
 Coconut & Palm Oil

**Flour and Dry Bakery Ingredients**

Basic Flour and Premixes

**Ice Cream, Coffee and Milk**

**Traded Products**

Dairy  
 Mozzarella  
 Sliced-on-Slice Cheese  
 Parmesan

**Stocks and Sauces**

**Chocolates**

**Canned Vegetables**

Mushrooms and Tomatoes

**Ibero Olive Oil**

Pomace, Pure and EVOO Oil

**Non Food Items**

Food Cling Wraps  
 Aluminum Foil  
 Baking Papers

**GFS Commissary Products**

Breaded, Battered and Fried  
Patties  
Marinated Value-Added Meats  
Ready-to-Eat Meals  
Dairy

***San Miguel Foods, Inc. - Franchising***

**Hungry Juan (HJ)**

HJ Meals (BBQ Liempo, Beef Calderetta, Beef Tapa, Embutido, Juanitos Pritos, Lumpiang Shanghai, Pork Adobo, Pork BBQ Tenderloin, Pork Sisig, Roast Chicken Inasal, Roast Chicken Inasal Sweet Garlic, Roast Pork Liempo)  
HJ Platter (Family Feast)  
HJ Roast (Chicken Inasal, Chicken Sweet Garlic)  
HJ Single Serve (Arroz Caldo, Juanitos Pritos, BBQ Tenderloin, Pork Sisig)  
HJ Street Gourmet (Isaw)

**San Mig Food Ave.**

Freshly Baked Breads  
Ready-to-Eat Products  
Ice Cream  
Snacks and Beverages  
Edible Grocery Products

***Foodcrave Marketing Inc.***

**Roasters & Fryers**

Roasted Chicken  
Fried Chicken  
Crispy Pata

**San Mig Food Ave. products**

***P.T. San Miguel Pure Foods Indonesia***

**Bakso (Meat Balls)**

Farmhouse (Beef)  
Vida (Beef)

**Sausages**

Farmhouse (Beef, Chicken, Beef Cocktail, Beef Frankfurter, Beef Wiener, Fried Beef, Fried Chicken, Premium Beef, Premium Cheese, Premium Beef Frankfurter, Premium Beef Wiener, Premium Bratwurst)  
FunKidz Chubbies (Cheese)  
Vida (Chicken, Beef, Beef Frank, Beef Wiener, Fried Sosis)  
Vida Saving (Beef)

**Retort Sausage**

Farmhouse (Ready to Eat: Beef Meatball Instant Original, Jumbo Sosis BBQ, Jumbo Sosis Cheese, Jumbo Sosis Meatball, Jumbo Sosis Corn, Big Sosis BBQ, Big Sosis Meatball, Ready to Cook : Fried Beef , Fried Chicken, Multipurpose Beef)

**Cold Cuts**

Farmhouse (Beef, Chicken)  
Purefoods Choice (Chicken Fajita Chunk, Chicken Luncheon, Minced Beef BBQ, Minced Chicken Teriyaki, Pastrami, Smoked Beef)

**Luncheon Burger**

Farmhouse (Beef, Cheese Burger)  
Purefoods Choice (Beef Burger)  
Vida Saving (Beef)  
Vida (Beef)

**Value Added**

Patties (Beef)

**Services**

Customization

*San Miguel Pure Foods Vietnam (VN) Co., Ltd.*

**Value-Added Meats**

Le Gourmet (Bacon, Ham, Beef, Pate, Sausage, Traditional, Meatball)

## Annex “B”

**San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.) and Subsidiaries**  
**List of Collective Bargaining Agreements (CBA) and Number of Employees**  
**As at December 31, 2017**

Level	Union	Expiration of CBA (Economic)	Headcount
Rank and File	<i><b>SMFI</b></i>		
	<b>MPEU - PTGWO</b>	<b>December 31, 2019</b>	<b>31</b>
	<b>SMFIEU - PTGWO</b>	<b>December 31, 2019</b>	<b>144</b>
	<i><b>SMMI</b></i>		
	<b>PFMEU</b>	<b>December 31, 2019</b>	<b>32</b>
	<i><b>MAGNOLIA</b></i>		
	<b>PWU IBM Local 47 – KMU Cavite</b>	<b>February 28, 2017</b>	<b>99</b>
	<i><b>PTSMPI</b></i>		
	<b>Federasi Serikat Pekerja Seluruh Indonesia sector Rokok, Tembakau, Makanan &amp; Minuman (FSPSI RTMM)</b>	<b>December 31, 2016</b>	<b>92</b>
	<i><b>SMPFVN</b></i>		
	<b>Trade Union Foundation of SMPFVN</b>	<b>December 31, 2016</b>	<b>151</b>
	<b>Non-Unionized/Exempt</b>		<b>2,497</b>
	<i><b>Total Rank &amp; File</b></i>		<b>3,046</b>
Supervisors			<b>298</b>
Managers			<b>262</b>
Executives			<b>50</b>
<b>TOTAL</b>			<b>3,656</b>

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**LIST OF PROPERTIES**  
For the Year 2017

**ANNEX "C"**

<i>Company Name / Subsidiary</i>	<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
<b>Admin Office/Sales Office</b>						
Pasig Office - San Miguel Pure Foods Company Inc. (SMPFC)	17F, 18F, 21F, 22F, 23F JMT Corporate Condominium Building, ADB Avenue, Ortigas Center, Pasig City	Owned	Good			
Iloilo Office - San Miguel Foods, Inc. (SMFI)-Agro Industrial Cluster (AIC)	Melliza St., Iloilo City	Owned	Good			
Isabela Sales Office - SMFI-Poultry	Soyung, Echague, Isabela	Owned	Good			
General Santos Office - SMFI-AIC	Putingbato, Calumpang, General Santos City	Owned	Good			
<b>Admin Office and Feedmill/Processing Plant/Product Development Laboratory/Warehouse</b>						
Cavite Admin Office and Magnolia Plant - Magnolia, Inc. (Magnolia)	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
Depok Office and Poultry Processing Plant - PT San Miguel Pure Foods Indonesia (PTSMPI)	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Depok, Indonesia	Owned	Good			
Tarlac Office, Feedmill and Warehouse - SMFI-Feeds	Luisita Industrial Park, San Miguel, Tarlac City	Owned	Good			
Bataan Office and Feedmill - SMFI-Feeds	Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan City	Owned	Good			
Pasig Office and Product Development Laboratory - SMFI-Corporate	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City	Owned	Good			
<b>Farm/Hatchery</b>						
Isabela Cattle Farm - SMFI-Meats	3305 San Luis, Cauayan, Isabela City	Owned	Good			
Calamba Hatchery - SMFI-Poultry	Brgy Licheria, Calamba City	Owned	Good			
Bataan Farm - SMFI-Poultry	Brgy. General Lim, Orion, Bataan City	Owned	Good			
Bulacan Hog Farm - SMFI-Meats	Brgy. Magmarale, San Miguel, Bulacan City	Owned	Good			
Bukidnon Hatchery - SMFI-Poultry	Kapitan Bayong, Impasug-ong, Bukidnon City	Owned	Good			
Bukidnon Hog Farm - SMFI-Meats	San Vicente, Sumilao, Bukidnon City	Owned	Good			
<b>Flourmill/Feedmill</b>						
Iloilo Feedmill - SMFI-Feeds	Brgy. Gua-an, Leganes, Iloilo	Owned	Good			
Isabela Feedmill - SMFI-Feeds	Bo. Soyung, Echague, Isabela City	Owned	Good			
Pangasinan Feedmill - SMFI-Feeds	Brgy. Bued, Binalonan, Pangasinan City	Owned	Good			
Mabini Flourmill - San Miguel Mills, Inc. (SMMI)	Brgy. Bulacan, Mabini, Batangas City	Owned	Good			
Tabangao Flourmill - SMMI	Brgy. Tabangao, Batangas City	Owned	Good			
Bulacan Feedmill - SMFI-Feeds	Brgy., Magmarale, San Miguel, Bulacan City	Owned	Good			
Bukidnon Feedmill - SMFI-Feeds	Impalutao, Impasug-ong, Bukidnon City	Owned	Good			
<b>Grain Terminal</b>						
Mabini Bulk Grain Handling Terminal - Golden Bay Grain Terminal Corporation (GBGTC)	Brgy. Balibaguan and Brgy. Bulacan, Mabini, Batangas City	Owned	Good			
<b>Land</b>						
Mabini Land - SMPFC	Brgy. Bulacan, Mabini, Batangas City	Owned	Good			
Pasig Land - Golden Avenue Corporation (GAC)	San Miguel Ave., Corner Tektite Road, Pasig City	Owned	Good			
<b>Processing Plant</b>						
Binh Duong Processing Plant - San Miguel Pure Foods (VN) Co., Ltd. (SMPFVN)	An Tay, Ben Cat, Binh Duong, Vietnam	Owned	Good			
Cavite Meat Plant - Purefoods Hormel Company, Inc. (PF-Hormel)	Bo. De Fuego, Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
Davao SMFI-Poultry Processing Plant - SMFI-Poultry	Brgy. Sirawan, Toril Davao City	Owned	Good			
Cavite Meat Plant - SMFI-Meats	Governor's Drive Bo. Langkaan 1, Dasmarias Cavite City	Owned	Good			



Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In Php, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
Laguna Ice Cream Plant - Golden Food & Dairy Creamery Corporation (GFDC)	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
<b>Processing Plant and Cold Storage</b>						
Mandaue SMFI-Poultry Processing Plant and Cold Storage - SMFI-Poultry	Riverside, Canduman, Mandaue City	Owned	Good			
<b>Warehouse</b>						
Quezon City Warehouse - PF-Hormel	Regalado Ave., Fairview, Quezon City	Owned	Good			
General Santos Warehouse - SMFI-Feeds	San Miguel Purefoods Compound, Rivera St., Calumpang, General Santos City	Owned	Good			

Note: All owned properties are free of liens and encumbrances.

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In Php, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
<b>Admin Office</b>						
Pasig Office - SMFI-Shared Services Center	10th floor, Raffles Corporate Centre, Don F. Ortigas Jr. Rd., Ortigas Center, San Antonio, Pasig	Rented	Good	597,549.20	9-Sep-2018	Lease is with month on month renewal under such terms and conditions as may be agreed upon by the parties
Pasig Office - SMFI-Corporate	20F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig	Rented	Good	363,806.19	31-Dec-2018	Renewable upon mutual agreement of both parties
Laguna Office - SMFI-Poultry	2nd & 3rd Floor, Anderson Building III, National Highway, Brgy. Parian, Calamba City, Laguna	Rented	Good	Jan-July: 680,000 Aug-Dec: 734,400	31-Jul-2021	Renewable upon mutual agreement of both parties
Davao Office - SMFI-Poultry	3rd Floor Alpha Bldg., Lanang Business Park, Lanang, Davao	Rented	Good	23,870.00	31-Aug-2020	Renewable every 5 years
Pasig Office - SMFI-Corporate	6F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig	Rented	Good	Jan: 384,081.96 Feb-Mar: 342,930.32 Apr-Dec: 360,076.84	31-Mar-2020	Subject to renewal upon agreement of the parties
Ho Chi Minh Office - SMPFVN	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City, Vietnam	Rented	Good	VND 35,863,636.00	31-Jul-2020	Renewable every 5 years
Cebu Office - SMFI-Poultry	6th Flr., Clotilde Bldg., Casuntingan, Mandaue City, Cebu	Rented	Good	153,000.00 (Jan to Jul) 166,500.00 (Aug to Dec)	31-Jul-2020	Renewable every 3 years
Cebu Office - Great Food Solutions (GFS) and SMFI-San Miguel Integrated Sales (SMIS)	7th Floor Clotilde Bldg., Casuntingan, Mandaue City, Cebu	Rented	Good	Jan-Jul: 24,545.46 (GFS) 54,000.00 (SMIS) Aug-Dec: 27,000 (GFS) 59,400 (SMIS)	30-Jun-2020	Renewable upon mutual agreement of both parties
Batangas Office - SMFI-Poultry	Bo San Roque, Sto Tomas, Batangas	Rented	Good	27,000.00	30-Apr-2019	Renewable every 1.5 years
Bacolod Office - SMFI-Feeds	Brgy. Banago, Bacolod City	Rented	Good	42,842.80	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Laguna Office - SMFI-Poultry	Denson Whse, Brgy Parian, Calamba, Laguna (Live Logistics Office/Vetmed Whse, Brown Egg)	Rented	Good	Jan-Nov: 143,600 Dec: 154,440	30-Nov-2021	Renewable upon mutual agreement of both parties
Zamboanga Office - SMFI-Poultry	Don Alfonso Marquez Subd., MCLL Highway Tetuan Zamboanga City	Rented	Good	28,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
Cagayan de Oro Office - SMFI-SMIS	Door #5 Banyan Place, Alwana Business Park, Cugman, Cagayan de Oro	Rented	Good	32,210.20	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Bacolod Office - SMFI-AIC and SMFI-Poultry	Door 3&4 VCY Center, Hilado Ext. Capitol Shopping, Bacolod	Rented	Good	45,301.34 (AIC) Jan-Jul: 56,900.18; Aug-Dec: 65,884.50 (Poultry)	15-Jul-2018	Renewable every 3 years
Bukidnon Office - SMFI-AIC and SMFI-Poultry	Gellor Bldg, Propia St., Malaybalay, Bukidnon	Rented	Good	71,303.57	31-Dec-2018	Renewable every 2 years
Medan Office - PTSMPFI	Jl.Kenanga Raya No.34D Kel.Tanjung Sari Kec.Medan Selayang	Rented	Good	IDR 1,500,000.00	17-Jun-2018	Renewable upon mutual agreement of both parties
Palembang Office - PTSMPFI	Komplek Gedung BLK (Balai Latihan Kerja) Jl.Residen Amaludin Sako Kenten Kelurahan Sukamaju, Palembang	Rented	Good	IDR 3,000,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
Surabaya Office - PTSMPFI	Jln.Raya by Pass Krian Km.26, Desa Barengkrajan, Krian-Jawa Timur	Rented	Good	IDR 7,000,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Cagayan de Oro Office - SMFI-AIC and SMFI-Poultry	Masterson Avenue Zone 13, Carmen, Cagayan de Oro	Rented	Good	320,250.00	30-Jun-2021	Renewable every 5 years
Bacolod Office - SMFI-SMIS	William Lines Warehouse, Magsaysay, Araneta St., Singang, Bacolod	Rented	Good	21,780.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Dumaguete Office - SMFI-Poultry	Unit 1-C, JC Building, Ipil Road, Brgy. Daro, Dumaguete City	Rented	Good	30,000.00	30-Oct-2021	Renewable every 5 years
Bacolod Office - SMFI-Poultry	NFCC Cybercentre Complex, Lacson Cr. Hernaez St., Bacolod City	Rented	Good	230,156.64	30-Jun-2020	Renewable every 3 years
<b>Admin Office and Cold Storage/Processing Plant/Warehouse</b>						
Bandung Office and Cold Storage - PTSMPFI	3rd Flr Jl. Soekarno Hatta No. 606, Bandung	Rented	Good	IDR 4,537,000.00 (Office) IDR 3,025,000.00 (Cold Storage)	1-Jan-2018	Renewable upon mutual agreement of both parties
Ormoc Office and Warehouse - SMFI-Poultry	Doors 1 and 4, 2nd Flr., Tan Bldg., Lilia Avenue, Cogon, Ormoc	Rented	Good	11,365.00 (Office) 3,500.00 (Warehouse)	1-Jan-2018	Renewable every 3 years
Bohol Admin Office, Cold Storage and Warehouse - SMFI-Poultry	Eastern Poblacion, Alburquerque, Bohol	Rented	Good	6,428.57 (Office) 19,479.17 (Cold Storage) 10,553.47 (Warehouse)	30-Nov-2019 (Office) 30-Jun-2018 (Cold Storage, Warehouse)	Renewable every 3 years
Yogyakarta Office and Cold Storage - PTSMPFI	Jln.Cangkringan Km.5 Purwomartani Kalasan Jogjakarta	Rented	Good	IDR 17,500,000.00	22-Mar-2018	Renewable upon mutual agreement of both parties
Butuan Office and Cold Storage - SMFI-AIC and SMFI-Poultry	Km 9 Tag-ibo Butu-an	Rented	Good	5,892.85 (Office) 399,549.41 (Cold Storage)	31-Mar-2018 (Office Poultry) 31-Dec-2019 (Cold Storage)	Renewable every year (Office) Renewable every 3 years (Cold Storage)
Misamis Occidental Office and Cold Storage - SMFI-AIC and SMFI-Poultry	Mailen, Clarin, Misamis Occidental	Rented	Good	14,946.43 (Office) 170,800.17 (Cold Storage)	Continuing unless terminated and agreed by both parties	Renewable every year (Office) Renewable every 3 years (Cold Storage)
Valenzuela Office and Cold Storage - SMFI-Poultry	No. 1787 East Service Rd. Lawang Bato, NLEX Valenzuela	Rented	Good	69,700.00 (Office) 2,526,416.67 (Cold Storage)	30-Jun-2019	Renewable every 2 years
Camarines Sur Office, Quality Assurance Office and Processing Plant - SMFI-AIC and SMFI-Poultry	Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur	Rented	Good	45,000.00 (Office AIC) 50,000.00 (Office Poultry) 26,785.71 (QA Office Poultry) 626,810.00 (Processing Plant Poultry)	Continuing unless terminated and agreed by both parties (Office, QA Office) 31-Dec-2018 (Processing Plant Poultry)	Renewable annually (Office & QA Office - AIC and Poultry) Renewable every 5 years (Processing Plant Poultry)
Iloilo Office and Warehouse - SMFI-SMIS	Iloilo Sales Options, Brgy. Mali-ao Pavia Iloilo, Jentec Storage Corp. Iloilo	Rented	Good	9,000 (Office) 1,262,115.39 (Warehouse)	30-Sep-2018	Renewable upon mutual agreement of both parties
<b>Cold Storage</b>						
Cavite Cold Storage - Magnolia, SMFI-Meats and SMFI-Poultry	Anabu Hills Industrial Estate, Anabu 1-c, Imus Cavite	Rented	Good	1,098,775.24 (Magnolia) 3,011,039.17 (Meats) 250,127.09 (Poultry)	Continuing unless terminated and agreed by both parties (Magnolia) 31-Oct-2019 (Meats) 17-Apr-2019 (Poultry)	Renewable every year (Magnolia) Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
Iloilo Cold Storage - SMFI-Poultry	Barangay Tungay, Sta. Barbara, Iloilo	Rented	Good	788,960.00	1-Jan-2020	Renewable every 2 years
La Union Cold Storage - SMFI-Meats	Bgry. Lubing, San Juan, La Union	Rented	Good	269,250.00	15-Jun-2019	Renewable upon mutual agreement of both parties
Negros Oriental Cold Storage - SMFI-Meats and SMFI-Poultry	Bolocboloc Sibulan Negros Oriental	Rented	Good	91,525.18 (Meats) 339,596.86 (Poultry)	1-Jun-2018	Renewable upon mutual agreement of both parties
Tacloban Cold Storage - SMFI-Meats and SMFI-Poultry	Brgy 99 Diit, Maharlika Highway, Tacloban	Rented	Good	124,878.31 (Meats) 61,913.73 (Poultry)	Continuing unless terminated and agreed by both parties (Meats) 30-Jun-2018 (Poultry)	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
Camarines Sur Cold Storage - SMFI-Poultry	Brgy. Caroyroyan, Pili, Camarines Sur	Rented	Good	150,740.00 (Poultry)	Continuing unless terminated and agreed by both parties	Renewable every 2 years (Poultry)
Davao Cold Storage - SMFI-Poultry	Daliao, Toril Davao	Rented	Good	291,370.00	31-Dec-2019	Renewable every 3 years
Cebu Cold Storage - SMFI-Meats and SMFI-Poultry	F.E. Zuellig Ave., North Reclamation Area, Mandaue, Cebu	Rented	Good	611,684.23 (Meats) 1,114,273.75 (Poultry)	31-Jul-2018	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In Php, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
Misamis Oriental Cold Storage - SMFI-Poultry	IP4 El Salvador, Misamis Oriental	Rented	Good	1,791,186.29	31-Dec-2018	Renewable every 5 years
Navotas Cold Storage - SMFI-Poultry and PF-Hormel	Lapu-Lapu Ave. and C3 Road cor. Northbay Blvd., Navotas	Rented	Good	960,500 (Poultry) 105,039.85 (PHC)	30-Sep-2020	Renewable every 3 years
Misamis Oriental Cold Storage - SMFI-Poultry	Mohon Tagoloan Misamis Oriental	Rented	Good	299,683.29	31-Dec-2019	Renewable every 3 years
Mandaue Cold Storage - SMFI-Poultry	PC Suico St., Tabok, Mandaue	Rented	Good	16,425.99	1-Jan-2020	Renewable every 3 years
Misamis Oriental Cold Storage - SMFI-Meats and SMFI-Poultry	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental	Rented	Good	47,698.00 (Meats) 47,136.36 (Poultry)	28-Feb-2019	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
Palawan Cold Storage - SMFI-Poultry	Puerto Princesa, Palawan	Rented	Good	297,027.00	1-Jan-2018	Renewable every 2 years
Davao Cold Storage - SMFI-Poultry	Purok 15, Panungtungon, Tibungco, Davao	Rented	Good	155,960.00	31-May-2018	Renewable every 3 years
Isabela Cold Storage - SMFI-Meats	San Pedro, Roxas, Isabela	Rented	Good	42,604.17	28-Feb-2020	Should there be no new agreement after its expiry, or its renewal is still being negotiated, this Agreement shall continue to be effective on a month to month basis under the same terms and conditions until a new agreement shall be executed or a decision not to renew is reached
Isabela Cold Storage - SMFI-Meats	San Pedro, Roxas, Isabela	Rented	Good	84,050.00	28-Feb-2020	Renewable upon mutual agreement of both parties
Batangas Cold Storage - SMFI-Poultry	San Roque, Sto Tomas, Batangas	Rented	Good	1,476,174.11	1-Aug-2019	Renewable every 3 years
Negros Occidental Cold Storage and Warehouse - SMFI-Poultry	Singko de Noviembre St., Silay City, Negros Occidental	Rented	Good	616,944.2 (Cold Storage) 13,440 (Warehouse)	31-May-2018	Renewable every 3 years
Rizal Cold Storage - SMFI-Poultry	Sumulong Highway, Brgy. Mambungan, Antipolo, Rizal	Rented	Good	1,546,311.67	30-Jun-2019	Renewable every 3 years
Cebu Cold Storage - SMFI-Poultry	Brgy. Pangdan, Naga City, Cebu	Rented	Good	1,204,498.57	31-Dec-2018	Renewable every 2 years
Pangasinan Cold Storage - SMFI-Poultry	Brgy. Mabilao, San Fabian, Pangasinan 2433	Rented	Good	586,909.84	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
<b>Cold Storage and Blast Freezing Facility/Holding Room/Laboratory/Warehouse/Processing Plant/Mixes Storage/Office</b>						
Bulacan Cold Storage and Holding Room - SMFI-Poultry	#95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good	115,730.00 (Cold Storage) 128,120.00 (Holding Room)	31-May-2019	Renewable every 3 years
Bulacan Cold Storage and Holding Room - SMFI-Poultry	111 Pulong Gubat, Balagtas Bulacan	Rented	Good	2,391,480 (Cold Storage) 562,170.00 (Holding Room)	31-Dec-2019	Renewable every 2 years
Pampanga Cold Storage and Office - SMFI-Meats and Warehouse - SMFI-Poultry	888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga	Rented	Good	2,665,338.70 (Cold Storage) 2,197,030.00 (Office) 12,371.67 (Warehouse)	31-Dec-2018	Renewable upon mutual agreement of both parties (Cold Storage/Office) Renewable every 2 years (Warehouse)
Leyte Cold Storage and Warehouse - SMFI-Poultry	Brgy. Antipolo, Albueria, Leyte	Rented	Good	825,858.00	31-Aug-2020	Renewable every 5 years
Bulacan Cold Storage, Holding Room and Laboratory - SMFI-Poultry and Office - SMFI-Meats	Brgy. Caysio, Sta. Maria, Bulacan	Rented	Good	365,145.99 (Cold Storage) 303,424.99 (Holding Room) 31,657.44 (Laboratory) 3,360 (Office)	1-Mar-2019 (Cold Storage) 28-Feb-2019 (Office, Holding Room) 19-Apr-2018 (Laboratory)	Renewable every 2 years (Cold Storage) Renewable every 3 years (Holding Room, Laboratory) Renewable upon mutual agreement of both parties (Office)
La Union Cold Storage and Laboratory - SMFI-Poultry	Brgy. Rabon, Rosario, La Union 2506	Rented	Good	438,228.43 (Cold Storage) 28,207.94 (Laboratory)	Continuing unless terminated and agreed by both parties (Cold Storage) 31-Dec-2018 (Laboratory)	Renewable upon mutual agreement of both parties
Iloilo Cold Storage - SMFI-Poultry and SMFI-Meats and Blast Freezing Facility - SMFI-Poultry	Brgy. Sambag Jaro Iloilo	Rented	Good	147,519.39 (Cold Storage-Poultry) 113,025.33 (Blast Freezing Facility-Poultry) 126,085 (Cold Storage-Meats)	31-May-2018 (Cold Storage) 30-Nov-2018 (Blast Freezing Facility)	Renewable upon mutual agreement of both parties
Pampanga Cold Storage and Holding Room - SMFI-Poultry	Brgy. San Isidro, San Simon, Pampanga	Rented	Good	478,357.00 (Cold Storage) 262,782.00 (Holding Room)	7-Jul-2019	Renewable every 5 years

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
Tarlac Cold Storage, Holding Room and Laboratory - SMFI-Poultry	Brgy. San Nicolas Balas, Concepcion, Tarlac 2316	Rented	Good	2,160,752.68 (Cold Storage) 1,317,411.2 (Holding Room) 42,000 (Laboratory)	15-Sep-2018 (Cold Storage and Holding Room) 15-Sep-2019 (Laboratory)	Renewable every 5 years
Bataan Cold Storage, Holding Room and Laboratory - SMFI-Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	508,809.28 (Cold Storage) 420,311.36 (Holding Room) 32,160.16 (Laboratory)	31-Jan-2018	Renewable every 3 years
Nueva Ecija Cold Storage, Holding Room and Laboratory - SMFI-Poultry	Km104, Brgy Tabuating, San Leonardo, Nueva Ecija	Rented	Good	600,169.50 (Cold Storage) 321,667.20 (Holding Room) 26,561.11 (Laboratory)	8-Mar-2018	Renewable every 3 years
Isabela Cold Storage and Mixes Storage SMFI-Meats and SMFI-Poultry	Purok 5, Rizal, Santiago City, Isabela	Rented	Good	194,484.00 (Cold Storage Meats) 5,000.00 (Mixes Storage Meats) 167,190.00 (Cold Storage Poultry)	30-Sep-2020	Renewable upon mutual consent of the parties, unless sooner terminated by either party as provided herein (Cold Storage Meats) Renewable upon mutual agreement of both parties (Mixes Storage Meats) Renewable every 3 years (Cold Storage Poultry)
Bulacan Cold Storage - SMFI-Poultry and SMFI-Meats and Warehouse - SMFI-SMIS	Rosas Norte, Brgy Saluysoy, Meycauyan, Bulacan	Rented	Good	960,538.52 (Poultry) 250,578.53 (Meats) 1,807,458.10 (SMIS)	30-Sep-2020 (Poultry) Continuing unless terminated and agreed by both parties (Meats) 31-Dec-2018 (SMIS)	Renewable every 3 years (Poultry) Renewable upon mutual agreement of both parties (Meats / SMIS)
Bacolod Cold Storage - SMFI-Poultry and Warehouse - SMFI-SMIS	Calong-calong, Airport Subd, Brgy Singcang, Bacolod City	Rented	Good	187,386.88 (Poultry) 49,000 (SMIS)	1-Aug-2020 (Poultry) 31-Dec-2018 (SMIS)	Renewable upon mutual agreement of both parties
<b>Feedmill</b>						
Cagayan de Oro Feedmill - SMFI-Feeds	GMC Compound, Zone 6, Umalag, Tablon, Cagayan de Oro	Rented	Good	1,411,200.00	31-Jan-2018	Renewable every 2 years
Cagayan de Oro Feedmill - SMFI-Feeds	MITMCO Cmpd., Baloy, Cagayan De Oro City	Rented	Good	1,065,389.09	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
<b>Foreshore</b>						
Mabini Bulk Grain Handling Terminal Foreshore - GBGTC	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Rented	Good	13,965.50	31-Dec-2025	Lease may be renewed for another 25 years at the option of DENR
Mabini Foreshore - SMMI	Brgy. Bulacan, Mabini, Batangas	Rented	Good	2,412.16	Continuing unless terminated and agreed by both parties	Lease may be renewed for another 25 years at the option of DENR
Tabangao Foreshore - SMMI	Brgy. Tabangao, Batangas	Rented	Good	14,166.67	22-Aug-2024	Lease may be renewed for another 25 years at the option of DENR
<b>Land</b>						
Mabini Bulk Grain Handling Terminal (Land only) - GBGTC	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Rented	Good	2,350,678.00	31-Mar-2018	Renewable upon mutual agreement of the parties
Pangasinan Feedmill (Land only) - SMFI-Feeds	Brgy. Bued, Binalonan, Pangasinan	Rented	Good	278,410.00	31-Dec-2021	Renewable every year
Mabini Flourmill (Land Only) - SMMI	Brgy. Bulacan, Mabini, Batangas	Rented	Good	1,371,089.99	31-Mar-2018	Renewable upon mutual agreement of the parties
Bataan Farm (Land only) - SMFI-Poultry	Brgy. General Lim, Orion, Bataan	Rented	Good	150,860.00	Continuing unless terminated and agreed by both parties	Renewable at the end of contract date
Bataan Feedmill (Land only) - SMFI-Feeds	Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan	Rented	Good	1,089,120.00	1-Mar-2055	Renewable upon mutual agreement of both parties
Cebu Land - SMMI	P. Rodriguez Street & Dad Cleland Road, Poblacion, Lapu-Lapu, Cebu	Rented	Good	Jan-June 2017: 3,016,560 July -Dec 2017: 3,167,388	31-May-2031	Renewable upon mutual written agreement of the parties
Pasig Office (Land Only) - SMFI-Corporate	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig	Rented	Good	258,832.25	31-Dec-2018	Renewable upon mutual agreement of both parties
Pampanga Processing Plant (Land Only) - SMFI-Poultry	SMPFC Region Office, SMC Complex, Quebiawan, San Fernando, Pampanga	Rented	Good	165,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
Batangas Land - SMMI	Soro-soro, Batangas	Rented	Good	160,714.29	30-Jun-2018	Renewable upon mutual written agreement of the parties

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
Laguna Ice Cream Plant (Land Only) - GFDC	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Rented	Good	586,312.70	31-May-2019	Continuing unless terminated and agreed by both parties
<b>Processing Plant</b>						
Batangas Dressing Plant - SMFI-Poultry	Brgy Aya, San Jose, Batangas	Rented	Good	2,259,421.67	31-Dec-2019	Renewable every 3 years
Lipa Dressing Plant - SMFI-Poultry	Brgy Kayumanggi, Lipa	Rented	Good	834,098.13	28-Feb-2020	Renewable every 3 years
Quezon Processing Plant - SMFI-Poultry	Brgy Lagalag, Tiaong, Quezon	Rented	Good	742,555.61	31-May-2018	Renewable every 3 years
Puerto Princesa Dressing Plant - SMFI-Poultry	Brgy Tagburos, Puerto Princesa	Rented	Good	20,000.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Albay Processing Plant - SMFI-Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good	112,198.07	31-Jul-2018	Renewable every 3 years
Zamboanga Dressing Plant - SMFI-Poultry	Brgy. Boalan, MCLL Highway, Zamboanga	Rented	Good	451,124.54	Continuing unless terminated and agreed by both parties	Renewable every 3 years
Lucena Processing Plant - SMFI-Poultry	Brgy. Bocohan, Lucena	Rented	Good	1,229,074.99	30-Jun-2018	Renewable every 3 years
Davao Processing Plant - SMFI-Meats	Marapangi, Toril, Davao City	Rented	Good	Jan-Jun: 5,000 Jul-Dec: 5,833.33	30-Sep-2019	Renewable upon mutual agreement of both parties
Davao Processing Plant - SMFI-Poultry	Sirawan Toril, Davao	Rented	Good	127,790.00	31-Mar-2018	Renewable every year
Davao Dressing Plant - SMFI-Poultry	Tugbok Dist., Calinan Davao	Rented	Good	294,700.00	Continuing unless terminated and agreed by both parties	Renewable every 3 years
<b>Processing Plant and Cold Storage</b>						
Isabela Processing Plant and Cold Storage - SMFI-Poultry	Garit Sur, Echague Isabela	Rented	Good	22,303.00 (Processing Plant) 565,536.00 (Cold Storage)	31-Dec-2018 (Processing Plant) 15-Mar-2018 (Cold Storage)	Renewable every 3 years
<b>Sales Office</b>						
Rizal Office - Magnolia	# 88 Garnet Barrio Mambangan, Antipolo, Rizal	Rented	Good	196,800.00	1-Feb-2023	Renewable upon mutual agreement of both parties
Bulacan Office - SMFI-Feeds	#382 McArthur hi-way, Tuktukan, Guiguinto, Bulacan	Rented	Good	74,100.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
<b>Sales Office and Cold Storage/Laboratory/Warehouse</b>						
Pangasinan Office, Cold Storage, Laboratory and Warehouse - SMFI-Poultry	GTL Compound, San Vicente, San Jacinto, Pangasinan, 2431	Rented	Good	22,320.00 (Office) 1,058,380.00 (Cold Storage) 28,710.00 (Laboratory) 15,000.00 (Warehouse)	1-Dec-2019 (Office) 31-Dec-2019 (Cold Storage, Laboratory) 1-Jun-2018 (Warehouse)	Renewable upon mutual agreement of both parties (Office, Cold Storage, Laboratory) Renewable every 5 years (Warehouse)
<b>Warehouse</b>						
Bataan Warehouse - SMFI-Feeds	10th Avenue, FAB, Mariveles, Bataan	Rented	Good	2,025,000.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
Tagbilaran SMFI-Feeds Warehouse - SMFI-Poultry	19B San Jose St., Cogon Dist., Tagbilaran	Rented	Good	7,391.92	31-Dec-2018	Renewable every 2 years
AFSI-Managed Warehouses - SMFI-Feeds	1st Industrial Park Zamboanga City Special Economic Zone Authority Sitio San Ramon, Brgy. Talisayan, Zamboanga	Rented	Good	301,291.20	Continuing unless terminated and agreed by both parties	Renewable every year
Maybunga Warehouse - SMFI-SMIS	403 F. Legaspi Street, Maybunga, Pasig	Rented	Good	6,266,673.38	31-Dec-2018	Renewable upon mutual agreement of both parties
Bulacan Warehouse - SMMI	Baliuag, Bulacan	Rented	Good	Jan-Aug: 78,000 Sept-Dec: 85,800	31-Aug-2021	Renewable upon mutual written agreement of the parties
LSL Multi-Serve-Managed Warehouses - SMFI-Feeds	Bay 6 Everland Agri Corp., Km. 12, Sasa, Davao City; Km. 11, Sasa, Davao	Rented	Good	547,792.50	Continuing unless terminated and agreed by both parties	Renewable every year
Isabela Warehouse - SMFI-Feeds	Brgy. Mabini, Alicia Isabela	Rented	Good	706,500.00	Continuing unless terminated and agreed by both parties	Renewable every year
Isabela Warehouse - SMFI-Feeds	Brgy. Aurora, Alicia Isabela	Rented	Good	196,200.00	Continuing unless terminated and agreed by both parties	Renewable every year

<i>Company Name / Subsidiary</i>	<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In Php, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
Isabela Warehouse - SMFI-Feeds	Brgy. Aurora , Alicia Isabela	Rented	Good	1,034,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
Pangasinan Warehouse - SMFI-Feeds	Carmay East, Rosales, Pangasinan	Rented	Good	330,610.00	Continuing unless terminated and agreed by both parties	Renewable every year
Pangasinan Warehouse - SMFI-Feeds	Carmen East, Rosales, Pangasinan	Rented	Good	677,695.29	Continuing unless terminated and agreed by both parties	Renewable every year
Isabela Warehouse - SMFI-Feeds	Del Pilar, Alicia, Isabela	Rented	Good	987,400.00	Continuing unless terminated and agreed by both parties	Renewable every year
MMIJOE-Managed Warehouses - SMFI-Feeds	Diversion Rd., Buhangin, Davao City; Km 10, Sasa, Davao City	Rented	Good	752,292.00	Continuing unless terminated and agreed by both parties	Renewable every year
SMCSL-Managed Warehouses - SMFI-Feeds	Manila; Bataan; Batangas; Camarines Sur; Cebu; Iloilo; Bacolod; Cagayan de Oro; Ozamiz; Bukidnon; General Santos; Zamboanga; Davao	Rented	Good	26,716,590.86	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
D Meter-Managed Warehouses - SMFI-Feeds	Industrial Park, Quezon Road, San Simon, Pampanga; Cristo Rey Capas, Tarlac 2315	Rented	Good	2,318,871.70	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Maybunga Warehouse - SMMI	Jose Ong Street, Maybunga, Pasig	Rented	Good	Jan-June: 365,967.71 July-Dec: 384,266.10	14-Jun-2018	Renewable upon mutual written agreement of the parties
Tarlac Warehouse - SMFI-Feeds	Mabini, Moncada, Tarlac	Rented	Good	252,725.00	Continuing unless terminated and agreed by both parties	Renewable every year
Laguna Warehouse - SMFI-Feeds	Maharlika Highway, Calamba Laguna	Rented	Good	97,184.00	Continuing unless terminated and agreed by both parties	Renewable every 3 years
Bataan Warehouse - SMFI-Feeds	MGC Compound, Luzon Avenue, Brgy. Mariveles, Bataan	Rented	Good	3,028,688.73	31-May-2018	Renewable upon mutual agreement of both parties
Pangasinan Warehouse - SMFI-Feeds	Nancayasan, Urdaneta, Pangasinan	Rented	Good	246,480.00	Continuing unless terminated and agreed by both parties	Renewable every year
La Union Warehouse - SMFI-Feeds	Pagdaraoan, San Fernando, La Union	Rented	Good	117,860.00	Continuing unless terminated and agreed by both parties	Renewable every year
Negros Oriental Warehouse - SMFI-Poultry	Sac-Sac, Bacong, Negros Oriental	Rented	Good	Jan to Sept: 16,830.35 Oct to Dec: 18,513.39	31-Aug-2018	Renewable every 2 years
Camarines Sur Warehouse - SMFI-Feeds	Santiago, Pili, Camarines Sur	Rented	Good	248,400.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
Isabela Warehouse - SMFI-Feeds	Sinabbaran, Echague, Isabela	Rented	Good	Jan-Feb: 1,672,652.80 Mar-Jul: 2,718,105.15 Aug - Nov: 2,949,485.92	Continuing unless terminated and agreed by both parties	Renewable every year
La Union Warehouse - SMFI-Feeds	Taboc, San Juan, La Union	Rented	Good	83,710.00	Continuing unless terminated and agreed by both parties	Renewable every year
South Cotabato Warehouse - SMFI-Poultry	Tumbler, Polomolok South Cotabato	Rented	Good	226,113.29	Continuing unless terminated and agreed by both parties	Renewable every 3 years
Pangasinan Warehouse - SMFI-Feeds	Urdaneta, Pangasinan	Rented	Good	369,220.00	Continuing unless terminated and agreed by both parties	Renewable every year
Valenzuela Warehouse - SMFI-SMIS	Warehouse 29 Plastic City Compound, Brgy. Canumay, Valenzuela City	Rented	Good	24,366.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Isabela Warehouse - SMFI-Feeds	Brgy. Victoria, Alicia, Isabela	Rented	Good	984,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Bukidnon Warehouse - SMFI-Feeds	Mambatangan, Manolo Fortich, Bukidnon	Rented	Good	243,000.00	14-Mar-19	Renewable every 2 years
Misamis Oriental Warehouse - SMFI-Feeds	Tagoloan, Misamis Oriental	Rented	Good	1,620,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
Davao Warehouse - SMFI-SMIS	Purok 9 KM 20 Tibungco, Davao City	Rented	Good	390,300.00	31-Dec-2018	Renewable upon mutual agreement of both parties



<i>Company Name / Subsidiary</i>	<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
Davao Warehouse - SMFI-SMIS	KM 14 Panacan, Davao City	Rented	Good	127,500.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Pampanga Warehouse - SMFI-SMIS	Gloria I, Sindalan, San Fernando, Pampanga	Rented	Good	1,210,000.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Bulacan Warehouse - SMFI-SMIS	Dazo Compound Iba Rd., Meycauayan Bulacan	Rented	Good	3,669,582.50	31-Dec-2018	Renewable upon mutual agreement of both parties
Pasig Warehouse - SMFI-SMIS	Manggahan Light Industrial Park, Manggahan, Pasig City	Rented	Good	2,289,375.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Cebu Warehouse - SMFI-SMIS	Jubay, Liloan Cebu	Rented	Good	75,000.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Misamis Oriental Warehouse - SMFI-SMIS	Zone 1 Igpit, Opol, Misamis Oriental	Rented	Good	90,000.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Mandaluyong Warehouse - SMFI-Feeds	979 C. Castaneda Street, Mandaluyong City Metro Manila	Rented	Good	300,000.00	1-Jun-2018	Renewable upon mutual agreement of both parties
Camarines Sur Warehouse - SMFI-Feeds	Brgy. San Jose, Pili, Camarines Sur	Rented	Good	161,280.00	14-Dec-2018	Renewable upon mutual agreement of both parties
Cebu Warehouse - SMFI-SMIS	G. Ouano Street, Brgy. Opao, Mandaue City	Rented	Good	1,303,445.83	31-Dec-2018	Renewable upon mutual agreement of both parties
Laguna Warehouse - SMFI-SMIS	46 Lot 3 Star Ave., Liip, Brgy., Mamlasan, Binan, Laguna	Rented	Good	660,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Parañaque Warehouse - SMFI-SMIS	Pacific Coast Plaza Building, 1St Villamor Street, Parañaque	Rented	Good	123,367.00	31-Dec-2019	Mutually be agreed upon between the parties.
Cagayan de Oro Warehouse - SMFI-SMIS	Door #4 Misco Compound, Alwana Business Park, Cugman Cagayan de Oro City	Rented	Good	82,879.83	31-Dec-2018	Renewable upon mutual agreement of both parties
Iloilo Warehouse - SMFI-Poultry	Cabugao Norte, Sta. Barbara, Iloilo	Rented	Good	94,594.30	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
General Santos Warehouse - SMFI-Feeds	Hadano Avenue, Brgy. Labangal, General Santos City	Rented	Good	1,893,375.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Davao Warehouse - SMFI-SMIS	Doors 5-6, Plug Holdings Compound, R. Castillo St., Davao City	Rented	Good	1,500.00	31-Dec-2018	Renewable upon mutual agreement of both parties
Tarlac Warehouse - SMFI-SMIS	LIP Hacienda Luisita San Miguel Tarlac City, Tarlac	Rented	Good	25,721.67	31-Dec-2018	Renewable upon mutual agreement of both parties
<b>Others (Blast Freezing Facility/Selling Station/Slaughterhouse)</b>						
Nueva Ecija Selling Station - SMFI-Meats	Mallorca, San Leonardo, Nueva Ecija (Mang Sergio's Hog Trading)	Rented	Good	45,000.00	30-Jun-2018	Renewable every year
Misamis Oriental Slaughterhouse and Cold Storage - SMFI-Meats	Sta. Ana, Tagoloan, Misamis Oriental	Rented	Good	7,840 (Slaughterhouse) 94,841.6 (Cold Storage)	Continuing unless terminated and agreed by both parties	Renewed upon the expiry of its contract term for the like period(s) under the same terms and conditions, except as may be otherwise agreed by the parties in writing
Parañaque Blast Freezing Facility - PF-Hormel	Sta. Aqueda Ave., Pascor Drive, Parañaque	Rented	Good	5,034,966.68	30-Jun-2018	Renewable upon mutual agreement of both parties



## Annex "D"

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

This discussion summarizes the significant factors affecting the consolidated financial position, financial performance and cash flows of San Miguel Pure Foods Company Inc. ("SMPFC" or the "Parent Company") and its subsidiaries (collectively, referred to as the "Group") for the three-year period ended December 31, 2017. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as at December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017. All necessary adjustments to present fairly the Group's consolidated financial position as at December 31, 2017 and the financial performance and cash flows for the year ended December 31, 2017 and for all the other periods presented, have been made.

#### I. BASIS OF PREPARATION

##### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

##### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

##### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All values are rounded off to the nearest thousand (₱000), except when otherwise indicated.



### Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

### Adoption of New and Amended Standards and Interpretations

The 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 amendments to PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments resulted in improved disclosures about the net debt of an equity relevant to the understanding of its 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 the *Amendments to PFRS 12, Disclosure of Interests in Other Entities* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the consolidated financial statements.

## II. FINANCIAL PERFORMANCE

### 2017 vs 2016

The Group recorded another growth year as it ended 2017 with consolidated revenues of P117.4 billion, 5% higher than last year, mainly on account of the strong performance of Poultry and Fresh Meats, and Processed Meats businesses. Favorable chicken prices, amidst the short-lived and localized avian flu outbreak in August 2017, improved selling prices of fresh meats and higher sales of processed meats were the revenue growth drivers. Consolidated revenues of the Group would have been better had it not been tempered by the continuous downtrend in basic flour selling prices attributable to declining global wheat prices.

Gross profit rose by 8% 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 and double-digit increases in the prices of dairy and processed meats major raw materials which resulted in 5% increase in cost of sales.

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 26% as borrowing costs directly attributable to the construction of plants were capitalized.

Interest income decreased by 12% largely due to the decline in the average level of money market placements.

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

Other charges - net went down by 74% as 2016 includes marked-to-market loss on importations and impairment loss recognized on idle assets of a foreign subsidiary. On the other hand, marked-to-market gain on importations in 2017 partly tempered the impact of other charges during the year.

Considering all the above factors, the Group achieved a P9.8 billion income before income tax, 15% higher than 2016's level.

Income tax expense increased by 12% primarily due to higher taxable income of certain subsidiaries.

Consolidated net income of the Group was at P6.9 billion, 16% higher versus last year.

Net income attributable to equity holders of both the Parent Company and non-controlling interests increased by 16% and 15%, 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 P80.8 billion to the Group's total revenues, 6% higher compared to previous

year. Operating income, on the other hand, posted double-digit growth due to favorable selling prices of chicken and fresh meats, better sales mix, lower costs of some 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 improved selling prices. Although the business experienced a significant decline in chicken prices in third quarter brought about by the short-lived and localized avian flu outbreak in certain areas of North Luzon, it was able to quickly recover in the fourth quarter of 2017 as soon as the outbreak was contained and demand started to improve. Meanwhile, favorable selling prices of fresh meats was sustained until end of 2017.

The Feeds business, on the other hand, posted revenue growth of 2% driven mainly by better sales achievement in broiler and some specialty feeds, offset by the setback in hog feeds segment resulting from the contraction of backyard hog raising market.

#### *Branded Value-Added*

Total revenue and operating income of the Branded Value-Added business grew by 6% and 2%, respectively, versus same period last year primarily driven by the good performance of The Purefoods-Hormel Company, Inc.'s (PF-Hormel) Processed Meats business.

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

The Parent Company's Dairy, Spreads and Biscuits business under Magnolia, Inc. (Magnolia) grew revenue by 5% attributable to higher sales volume as well as price increases implemented to temper the impact of higher raw material prices.

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*

The decline in basic flour's selling prices resulting from continuous downtrend of global wheat prices, aggravated by intense industry competition, prevented the Parent Company's Flour Milling business under San Miguel Mills, Inc. (SMMI) to surpass last year's revenue and operating income.

#### *Others*

The combined revenue and operating income of the Parent Company's international operations in Indonesia and Vietnam improved versus 2016 level due to Vietnam's increased volume.

### **2016 vs 2015**

The Group delivered another strong full year result as 2016 consolidated revenues reached P111.6 billion, 4% higher than 2015 mainly on account of the sustained strong performances of Poultry, Feeds and Branded Value-Added businesses. Driving the revenue growth were the favorable selling prices of chicken, even surpassing last year's average selling prices, increased volume achievement, and better selling prices of branded value-added products. The growth, however, was tempered by the industry-wide downtrend in basic flour's selling prices, brought about by the declining wheat costs, and intense competition. Lower pork prices likewise affected revenue growth.

Higher volume, combined with improved operational efficiencies and generally lower cost of raw materials, resulted in 13% gross profit growth.

Selling and administrative expenses grew by 11% due to increased advertising and promotions, manpower and logistics costs. The Parent Company, in its thrust of growing its value-added businesses, boosted its spending on marketing and brand-building campaigns. Logistics costs, which include warehouse rental, hauling, trucking and related services, went up on account of the Group's effort to expand distribution coverage and improve customer servicing.

The 66% drop in interest expense and other financing charges was mainly due to SMFI's full payment in December 2015 of its matured five-year corporate notes with aggregate principal amount of P4.5 billion.

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

Gain on sale of investment property and property and equipment was up by 30% compared to 2015's level due to the disposal of an investment property in the first semester of 2016 that yielded higher one-time gain.

Other charges - net dropped by 14% mainly due to lower than 2015's impairment loss recognized on idle assets of a foreign subsidiary.

Taking into account the above factors, the Group registered an income before income tax of P8.6 billion for 2016, 23% higher than 2015.

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

The overall solid performance of the Group yielded a consolidated net income of P6.0 billion, a 26% growth versus same period in 2015.

Net income attributable to equity holders of the Parent Company was up by 26% due to better combined performances of subsidiaries where SMPFC holds significant ownership.

Net income attributable to non-controlling interests increased by 16% on account of the improved performance of certain subsidiaries where non-controlling stockholders hold stake.

#### *Business Highlights:*

##### *Agro-Industrial*

Agro-Industrial, comprised of SMFI's Poultry and Fresh Meats, and Feeds businesses, contributed a total of P76.5 billion to the Group's total revenues, a 5% increase over 2015's level. The increase in sales was driven mainly by the favorable chicken selling prices, as the Poultry business sustained its recovery from first half of 2015's period of low selling prices, and robust volume resulting from expanded distribution, increased trade penetration and effective marketing efforts. These, combined with the drop in cost of some major raw materials, translated to an operating income that surpassed 2015's level.

Revenue of the combined Poultry and Fresh Meats business of SMFI went up by 7% 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 maintained its growth momentum and ended 2016 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*

PF-Hormel's Processed Meats business recorded revenue growth of 7% mainly due to increased volume in almost all trade channels and better sales mix which translated to higher average selling prices.

The Parent Company's Dairy, Spreads and Biscuits business under Magnolia posted an 8% increase in revenue as effective marketing and brand-building activities boosted volume growth in most categories. Favorable sales mix that resulted in better selling prices likewise contributed to higher revenue.

Notwithstanding the increased competitive pressure from major players, the Coffee business under SMSCCI registered revenue growth of 2% as various marketing campaigns and the positive response of the market to its new product launched in August 2016 helped increased volume versus same period in 2015.

The strong performance of the Branded Value-Added businesses, coupled with the favorable impact of lower costs of certain major raw materials, resulted in higher combined operating income versus 2015.

#### *Milling*

The performance of the Parent 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 were lower than 2015.

#### *Others*

Combined revenue of the Parent Company's foreign operations in Indonesia and Vietnam grew by 1% versus 2015. 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.

### **III. FINANCIAL PERFORMANCE**

#### **2017 vs 2016**

Consolidated financial position of the Group remained healthy. The double-digit growth in current payables, which caused the slide in current ratio from 1.73:1 in 2016 to 1.36:1 in 2017 and the increase in debt to equity ratio from 0.55:1 in 2016 to 0.70:1 in 2017, was mainly due to increased volume of transactions with third party suppliers in the last quarter of 2017 and higher short-term loan availments to partly finance the Group's expansion programs and working capital requirements.

The increase in total assets from P67.0 billion to P81.9 billion is attributed to the expansion projects and higher inventories. Total equity, on the other hand, went up from P43.2 billion to P48.1 billion on account of the net income for 2017, partly reduced by the cash dividends declared to all common and preferred shareholders of the Parent Company.

Below were the major developments in 2017:

#### INVESTMENTS IN SUBSIDIARIES

In June 2017, the Board of Directors (BOD) and shareholders of SMFI approved, among others, the: (i) increase in SMFI's authorized capital stock by P5,000.0 million, equivalent to 50,000,000 common shares at P100.00 par value per share, and (ii) amendment to Article VII of SMFI's Articles of Incorporation to reflect such increase.

On January 10, 2018, the Securities and Exchange Commission (SEC) issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMFI's authorized capital stock, from P10,000.0 million, consisting of 85,000,000 common shares and 15,000,000 preferred shares both with par value of P100.00 per share, to P15,000.0 million, consisting of 135,000,000 common shares and 15,000,000 preferred shares at the same par value.

#### TRADEMARKS AND OTHER INTANGIBLE ASSETS

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

In December 2017, the acquisition by SMPFC of the IP Rights was completed following the substantial fulfillment of the closing conditions of the Agreements and the payment of the consideration for such IP Rights.

#### EQUITY

Cash dividends declared in 2017 by the BOD of the Parent Company to common and preferred shareholders amounted to P6.00 per share and P56.569 per share, respectively.

#### OTHER MATTERS

- a) 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 Philippine Stock Exchange (PSE) of the additional shares resulting from the reduction of par value of common shares and the New Shares to be issued to SMC.

The stockholders of the Parent Company approved the foregoing corporate actions in its special stockholders meeting on January 18, 2018.

On March 23, 2018, the SEC approved the First Amendments by virtue of the Certificate of Filing of Amended Articles of Incorporation of San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.) issued on the said date, a copy of which the Parent Company received on March 27, 2018.

On April 5, 2018, SMC and the Parent Company signed a Deed of Exchange of Shares pursuant to which SMC shall transfer to the Parent Company the Exchange Shares, and in consideration therefor, the Parent Company shall issue New Shares from the Increase, subject to and conditioned upon the approval by the SEC of the Increase.

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

In February 2018, the refundable deposit was reversed and the acquisition by Magnolia of the Purchase Assets was completed following the substantial fulfillment of the closing conditions of the Agreement and the payment of the consideration for such Purchased Assets.

#### Analysis of Financial Position Accounts

Cash and cash equivalents declined by 7% as funds were used to pay raw materials importation and capital expenditures.

Inventories grew by 21% mainly due to increased importation of certain major raw materials to support expected surge in sales volume and in anticipation of further increase in raw material costs in 2018.

The purposive increase in volume of live broiler grown and poultry breeding stock to support expected higher demand for chicken resulted in 10% and 19% surge in current and noncurrent biological assets, respectively.

Prepaid expenses and other current assets rose by 20% due to the increase in the level of creditable input taxes for application against future tax liabilities.

The purchase of land by a subsidiary resulted in 15% increase in investment property - net.

Property, plant and equipment - net went up by 55% on account of the Group's ongoing expansion projects.

The reversal of certain deferred tax benefit provisions resulted in 9% drop in deferred tax assets.

The increase in other noncurrent assets was mainly due to higher non-trade receivables.

Notes payable rose by 64% as additional short-term borrowings were availed to partly finance capital expenditure and working capital requirements.

Trade payables and other current liabilities registered a 32% increase due to higher volume of transactions with third party suppliers in the last quarter of 2017.

Income tax payable was 76% higher versus 2016 level as total income tax due of a domestic subsidiary in 2016 was fully paid using excess creditable withholding taxes carried over from previous year.

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 SEC of the application to increase authorized capital stock of a domestic subsidiary.

The increment in equity reserves was the result of the remeasurement of the Group's plan assets and obligations for the year 2017.

Unappropriated retained earnings increased by 29% on account of the Group's net income for the year, net of the cash dividends paid.

The share in the net income of subsidiaries where non-controlling stockholders hold stake, as well as the additional investment of a minority stockholder, translated to a 22% increase in the balance of non-controlling interests.

### **2016 vs 2015**

Consolidated financial position of the Group remained healthy. Debt to equity ratio registered at 0.55:1 in 2016 from 0.56:1 in 2015. Current ratio of 1.73:1 in 2016 was slightly lower versus 1.89:1 in 2015 due to higher short-term loan availments to partly finance the Group's expansion program. The increase in total assets from P61.0 billion to P67.0 billion is likewise attributed to the expansion projects. Total equity went up from P39.0 billion to P43.2 billion on account of the net income for 2016, partly reduced by the cash dividends declared to all common and preferred shareholders of the Parent Company.

### **INVESTMENTS IN SUBSIDIARIES**

- a) In April 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in PF-Hormel's authorized capital stock from P1,500.0 million, consisting of 1,500,000,000 common shares at a par value of P1.00 per share, to P3,500.0 million, consisting of 3,500,000,000 common shares at the same par value.
- b) In June 2016, the BOD and shareholders of Magnolia approved, among others, the: (i) increase in Magnolia's authorized capital stock by P2,000.0 million, equivalent to 2,000,000,000 common shares at P1.00 par value per share, and (ii) declaration of stock dividend in favor of SMPFC



amounting to P600.0 million, equivalent number of common shares of which totalling 600,000,000 will be taken from the proposed increase in authorized capital stock.

In December 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in Magnolia's authorized capital stock from P1,000.0 million, consisting of 1,000,000,000 common shares at a par value of P1.00 per share, to P3,000.0 million, consisting 3,000,000,000 common shares at the same par value.

#### OTHER NONCURRENT ASSETS

In 2016, San Miguel Pure Foods (VN) Co., Ltd. recognized an impairment loss on idle assets amounting to P109.3 million.

#### LONG-TERM DEBT

In December 2016, PT San Miguel Pure Foods Indonesia fully paid its unsecured facility loans amounting to Indonesian Rupiah 19.0 billion (equivalent to P70.3 million).

#### EQUITY

##### *Appropriated Retained Earnings*

- a) In March 2016, the BOD of PF-Hormel approved the reversal of the retained earnings appropriation amounting to P2,000.0 million.

In July 2016, PF-Hormel reversed the retained earnings appropriation amounting to P2,000.0 million.

- b) In March 2016, SMMI reversed the June 2015 retained earnings appropriation amounting to P2,000.0 million.

##### *Cash Dividends*

Cash dividends declared in 2016 by the BOD of the Parent Company to common and preferred shareholders amounted to P5.70 per share and P56.569 per share, respectively.

#### Analysis of Financial Position Accounts

Cash and cash equivalents went down by 19% mainly as a result of expansion-related expenditures.

The 11% increase in trade and other receivables - net resulted from higher credit sales due to conversion of certain distributors from cash to credit term.

Inventories grew by 16% largely due to higher importation of major raw materials to take advantage of lower prices, and increased cassava harvest.

Current biological assets declined by 6% due to lower production of marketable hogs and decrease in volume of hatching eggs.

Higher taxable income of a domestic subsidiary in the first three quarters of 2016 resulted in higher utilization of creditable withholding taxes, hence, the 33% drop in prepaid expenses and other current assets.

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 42%.

Additional short-term borrowings to partly finance capital expenditure requirements resulted in 43% increase in notes payable.

Higher volume of transactions with third party suppliers in the last quarter of 2016 resulted in a 6% increase in trade payables and other current liabilities.

Income tax payable was 16% lower versus 2015 level due to the decline in a certain subsidiaries' taxable income in the fourth quarter of 2016 versus same period in 2015.

The 100% drop in current maturities of long-term debt - net of debt issue costs was due to the full settlement of a foreign subsidiary's unsecured facility loan in December 2016.

Other noncurrent liabilities decreased by 69% due to the payment of retirement contribution.

Remeasurement of the Group's retirement plan assets and obligations for the year 2016 resulted in incremental equity reserves.

The 52% decrease in appropriated retained earnings was due to the reversal of the P3.2 billion retained earnings appropriation following the approval by the SEC of the increase in authorized capital stock of certain domestic subsidiaries.

Unappropriated retained earnings, on the other hand, rose by 76% on account of the Group's net income for 2016, net of the cash dividends paid, and the reversal of retained earnings appropriation.

The share in net income of a domestic subsidiary where non-controlling stockholders hold stake, net of the cash dividend declaration, translated to a 5% increase in the balance of non-controlling interests.

#### IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	<b>December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
		<i>(in Millions)</i>	
Net cash flows provided by operating activities	<b>P12,254</b>	P7,216	P11,995
Net cash flows used in investing activities	<b>(14,322)</b>	(8,440)	(5,704)
Net cash flows provided by (used in) financing activities	<b>1,573</b>	(524)	(11,219)

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 included the following:

	<b>December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(in Millions)</i>		
Acquisitions of:			
Property, plant and equipment	<b>(P10,890)</b>	(P6,467)	(P3,128)
Investment property	<b>(104)</b>	-	-
Intangible assets	<b>(51)</b>	(52)	(464)
Increase in biological assets and other noncurrent assets	<b>(3,573)</b>	(2,257)	(2,215)
Proceeds from sale of investment property and property and equipment	<b>296</b>	336	103

Major components of cash flow provided by (used in) financing activities are as follows:

	<b>December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(in Millions)</i>		
Availments of notes payable	<b>P129,486</b>	P126,376	P265,898
Payments of notes payable	<b>(126,205)</b>	(124,833)	(271,071)
Cash dividends paid	<b>(1,847)</b>	(1,997)	(2,067)
Payment of stock transaction cost	<b>(10)</b>	-	-
Payments of current maturities of long-term debt	-	(70)	(4,500)
Redemption of outstanding PFP Shares	-	-	(15,000)
Proceeds from:			
Issuance of PFP2 Shares, net of transaction costs	-	-	14,884
Divestment of non-controlling interest	-	-	557
Addition to non-controlling interest	<b>89</b>	-	15
Deposit for future stock subscription	<b>60</b>	-	-
Availments of long-term debt	-	-	65

The effect of exchange rate changes on cash and cash equivalents amounted to (P0.2 million), P3.4 million and (P3.5 million) in 2017, 2016 and 2015, respectively.

## V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company as at December 31, 2017 and 2016 is restricted in the amount of P182.1 million representing the cost of common shares held in treasury.

The Group's unappropriated retained earnings includes the accumulated earnings in subsidiaries which is not available for declaration as dividends until declared by the respective investees.

## VI. 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	December 2017	December 2016
Liquidity: Current Ratio	1.36	1.73
Solvency: Debt to Equity Ratio	0.70	0.55
Asset to Equity Ratio	1.70	1.55
Profitability: Return on Average Equity Attributable to Equity Holders of the Parent Company	19.78%	19.65%
Interest Rate Coverage Ratio	100.75	64.57

KPI	For the year ended December 2017	For the year ended December 2016
Operating Efficiency: Volume Growth	3.92%	5.36%
Revenue Growth	5.25%	4.42%
Operating Margin	8.45%	8.00%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
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	$\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

\* Excluding cash dividends paid to preferred shareholders

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

## **VII. OTHER MATTERS**

### **a) Declaration of Cash Dividends**

On February 1, 2018, the Parent Company's BOD declared cash dividends to all common shareholders of record as at February 19, 2018 amounting to P2.00 per share payable on March 1, 2018. SMPFC's BOD likewise declared on February 1, 2018 cash dividends to all preferred (series 2) shareholders of record as at February 19, 2018 amounting to P14.14225 per share payable on March 12, 2018.

### **b) Ratification of SMSCCI's Increase in Authorized Capital Stock**

On February 6, 2018, the BOD and shareholders of SMSCCI ratified the increase in SMSCCI's authorized capital stock from P500.0 million, consisting of 50,000,000 million common shares at a par value of P10.00 per share, to 1,000.0 million, consisting of 100,000,000 million common shares at the same par value, as previously approved by the BOD and shareholders of SMSCCI on December 14, 2016.

### **c) Contingencies**

The Group is a party to certain lawsuits or claims (mostly labor-related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

### **d) Commitments**

The outstanding purchase commitments of the Group as at December 31, 2017 amounted to P19,139.7 million, of which P5,569.1 million pertains to contractual commitments on capital projects in progress.

### **e) Foreign Exchange Rate**

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso were closing rates of P49.93 and P49.72 in 2017 and 2016, respectively, for consolidated statements of financial position accounts; and average rates of P50.40, P47.48 and P45.50 in 2017, 2016 and 2015, respectively, for income and expense accounts.

### **f) Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses, which consistently earn more revenues during the Christmas holiday season, the effect of seasonality or cyclicity on the operations of the Parent Company's other businesses is not material.**

### **g) There are no unusual items as to the 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.**

- h) There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- i) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- j) 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.
- k) 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 "Contingencies" under Section VII (c) that remain outstanding as at and for the period ended December 31, 2017.
- l) 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 December 31, 2017.
- m) Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of San Miguel Pure Foods Company Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

A handwritten signature in black ink, appearing to read "Eduardo M. Cojuangco, Jr.".

**Eduardo M. Cojuangco, Jr.**  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Francisco S. Alejo III".

**Francisco S. Alejo III**  
President

A handwritten signature in black ink, appearing to read "Zenaida M. Postrado".

**Zenaida M. Postrado**  
Treasurer and Chief Finance Officer

Signed this 14<sup>th</sup> day of March 2018



## ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES )  
PASIG CITY City ) S.S.


Before me, a Notary Public for and in PASIG CITY City this MAR 14 2018 day  
of \_\_\_\_\_ 2018, personally appeared:

<u>Name</u>	<u>Passport No.</u>	<u>Expiry Date/Place Issued</u>
Eduardo M. Cojuangco, Jr.	EC-3542719	February 26, 2020 / Manila
Francisco S. Alejo III	P1657246A	January 17, 2022 / NCR East
Zenaida M. Postrado	EC-0671128	March 25, 2019 / Manila

known to me to be the same persons who executed the foregoing Statement of Management's Responsibility consisting of two (2) pages including this page on which this acknowledgment is written and that they acknowledged to me that the same is their free and voluntary act and deed and that of the principals they represent.

IN WITNESS WHEREOF, I have hereto affixed my notarial seal at the date and place first above written.

Doc. No. 119 ;  
Page No. 25 ;  
Book No. 15 ;  
Series of 2018.

  
**MA. FRANCESCA Q. BALTAZAR**  
Notary Public for Pasig City  
Commission until 31 December 2018  
22<sup>nd</sup> Floor, JMT Corporate Condominium,  
ADB Ave., Ortigas Center, Pasig City  
APPT No. 64 (2017-2018)/Roll No. 57174  
IBP No. 024946; 1/9/2018; Makati City  
PTR No. 3867077; 1/10/2018; Pasig City  
MCLE Compliance No. V-0012795; 12/9/2015



**San Miguel Pure Foods Company Inc.  
and Subsidiaries**

Consolidated Financial Statements  
December 31, 2017, 2016 and 2015

With independent auditors' report provided by



**REYES TACANDONG & CO.**

**FIRM PRINCIPLES. WISE SOLUTIONS.**

for  
AUDITED FINANCIAL STATEMENTS

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N	/	A
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## COMPANY INFORMATION

	1	2

**(02) 317-5000**

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**Common - 131; Preferred - 108**

**May 11**

December 31

CONTACT PERSON INFORMATION	
NAME	
PHONE	
EMAIL	
ADDRESS	
CITY	
STATE	
ZIP	
COUNTRY	

The designated contact person **MUST** be an Officer of the Corporation

**Ms. Zenaida M. Postrado**

**zpostrado@sanmiguel.com.ph**

**(02) 317-5000**

\_\_\_\_\_

CONTACT PERSON'S ADDRESS	
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**23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City**

**2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.**



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
San Miguel Pure Foods Company Inc.  
23rd Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City

### *Opinion*

We have audited the accompanying consolidated financial statements of San Miguel Pure Foods Company Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





Assessment of Impairment of Trademark and Other Intangible Assets with Indefinite Useful Lives

The Group is required to annually test for impairment the amount of trademark and other intangible assets with indefinite useful lives. This is significant to our audit because the aggregate balance of the trademark and other intangible assets amounted to ₱4,018.1 million as at December 31, 2017 is material to the consolidated financial statements. Moreover, the assessment process of impairment involves judgment. We have reviewed the reasonableness of assumptions used by management in the impairment assessment. Necessary disclosures are included in Note 4, *Use of Judgments, Estimates and Assumptions* and Note 14, *Trademarks and Other Intangible Assets*.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.





*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.





We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REYES TACANDONG & Co.**

  
HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 6607959

Issued January 3, 2018, Makati City

March 14, 2018

Makati City, Metro Manila



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2017 AND 2016**

(Amounts in Thousands)

	<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7, 30, 31	<b>₱7,044,133</b>	₱7,539,514
Trade and other receivables - net	4, 8, 27, 30, 31	<b>11,572,575</b>	11,252,266
Inventories	4, 9	<b>21,002,314</b>	17,346,931
Biological assets	4, 10	<b>3,422,338</b>	3,121,543
Prepaid expenses and other current assets	11, 27, 30, 31	<b>1,823,477</b>	1,518,198
<b>Total Current Assets</b>		<b>44,864,837</b>	40,778,452
<b>Noncurrent Assets</b>			
Investment property - net	4, 12	<b>776,818</b>	673,256
Property, plant and equipment - net	4, 13	<b>27,411,740</b>	17,670,995
Biological assets - net of current portion	4, 10	<b>2,695,257</b>	2,263,279
Trademarks and other intangible assets - net	4, 14	<b>4,116,219</b>	4,145,932
Deferred tax assets	4, 25	<b>800,736</b>	878,299
Other noncurrent assets	4, 13, 26, 27, 30, 31	<b>1,208,873</b>	604,712
<b>Total Noncurrent Assets</b>		<b>37,009,643</b>	26,236,473
		<b>₱81,874,480</b>	₱67,014,925
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Notes payable	15, 27, 30, 31	<b>₱8,406,924</b>	₱5,125,851
Trade payables and other current liabilities	16, 27, 30, 31	<b>23,836,843</b>	17,991,576
Income tax payable		<b>745,482</b>	424,470
<b>Total Current Liabilities</b>		<b>32,989,249</b>	23,541,897
<b>Noncurrent Liabilities</b>			
Deferred tax liabilities	25	<b>26,856</b>	26,699
Other noncurrent liabilities	4, 26, 27, 30, 31	<b>710,362</b>	259,670
<b>Total Noncurrent Liabilities</b>		<b>737,218</b>	286,369

Forward

	<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	18	<b>₱2,008,748</b>	₱2,008,748
Additional paid-in capital		<b>35,234,781</b>	35,234,781
Equity reserves	5	<b>(280,784)</b>	(121,425)
Retained earnings:	18		
Appropriated		<b>2,999,100</b>	2,999,100
Unappropriated		<b>21,125,484</b>	16,411,813
Treasury stock	18	<b>(15,182,094)</b>	(15,182,094)
		<b>45,905,235</b>	41,350,923
<b>Non-controlling Interests</b>	2, 5	<b>2,242,778</b>	1,835,736
<b>Total Equity</b>		<b>48,148,013</b>	43,186,659
		<b>₱81,874,480</b>	₱67,014,925

*See Notes to the Consolidated Financial Statements.*



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Thousands, Except Per Share Data)

	<i>Note</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>	<i>19, 27</i>	<b>₱117,448,552</b>	₱111,585,561	₱106,860,238
<b>COST OF SALES</b>	<i>20, 27, 34</i>	<b>89,868,159</b>	85,952,431	84,109,526
<b>GROSS PROFIT</b>		<b>27,580,393</b>	25,633,130	22,750,712
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	<i>21, 27</i>	<b>(17,654,814)</b>	(16,702,084)	(15,106,720)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	<i>15, 17, 24</i>	<b>(98,423)</b>	(132,414)	(389,470)
<b>INTEREST INCOME</b>	<i>7, 24</i>	<b>111,328</b>	127,093	180,920
<b>GAIN ON SALE OF INVESTMENT PROPERTY AND PROPERTY AND EQUIPMENT</b>	<i>12, 13</i>	<b>4,898</b>	127,432	97,772
<b>OTHER CHARGES - Net</b>	<i>24</i>	<b>(125,339)</b>	(488,094)	(564,536)
<b>INCOME BEFORE INCOME TAX</b>		<b>9,818,043</b>	8,565,063	6,968,678
<b>INCOME TAX EXPENSE</b>	<i>25</i>	<b>2,911,986</b>	2,589,459	2,216,646
<b>NET INCOME</b>		<b>₱6,906,057</b>	₱5,975,604	₱4,752,032
<b>Net Income attributable to:</b>				
Equity holders of the Parent Company		<b>₱6,569,279</b>	₱5,682,272	₱4,499,555
Non-controlling interests	<i>5</i>	<b>336,778</b>	293,332	252,477
		<b>₱6,906,057</b>	₱5,975,604	₱4,752,032
<b>Basic and Diluted Earnings per Common Share Attributable to Equity Holders of the Parent Company</b>	<i>28</i>	<b>₱34.32</b>	₱29.00	₱21.38

*See Notes to the Consolidated Financial Statements.*

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Thousands)

	<i>Note</i>	2017	2016	2015
<b>NET INCOME</b>		<b>₱6,906,057</b>	<b>₱5,975,604</b>	<b>₱4,752,032</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurement gain (loss) on reserve for retirement plan	26	<b>(256,752)</b>	246,266	(133,114)
Income tax benefit (expense)	25	<b>76,765</b>	(73,982)	39,113
		<b>(179,987)</b>	172,284	(94,001)
<b>Items that may be reclassified to profit or loss</b>				
Gain on exchange differences on translation of foreign operations		<b>2,148</b>	19,697	49,155
Net gain on available-for-sale financial assets		<b>289</b>	1,315	718
Income tax expense	25	<b>(45)</b>	(139)	(18)
		<b>2,392</b>	20,873	49,855
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>(177,595)</b>	193,157	(44,146)
<b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>		<b>₱6,728,462</b>	<b>₱6,168,761</b>	<b>₱4,707,886</b>
<b>Total Comprehensive Income attributable to:</b>				
Equity holders of the Parent Company		<b>₱6,409,920</b>	₱5,877,214	₱4,458,114
Non-controlling interests		<b>318,542</b>	291,547	249,772
		<b>₱6,728,462</b>	<b>₱6,168,761</b>	<b>₱4,707,886</b>

*See Notes to the Consolidated Financial Statements.*

# SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Thousands)

		Equity Attributable to Equity Holders of the Parent Company														
		Equity Reserves								Retained Earnings		Treasury Stock		Total	Non-controlling Interests	Total Equity
Note		Common Stock	Preferred Stock	Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Reserve	Revaluation Increment	Fair Value Reserve	Other Equity Reserves	Appropriated	Unappropriated	Common Stock	Preferred Stock			
		₱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

	Note	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
		Equity Reserves								Retained Earnings		Treasury Stock		Total			
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Reserve	Revaluation Increment	Fair Value Reserve	Other Equity Reserves	Appropriated	Unappropriated	Common Stock	Preferred Stock				
		Common Stock	Preferred Stock														
As at January 1, 2016		₱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	
Remeasurement gain (loss) on reserve for retirement plan, net of deferred tax	26	—	—	—	175,223	—	—	—	—	—	—	—	—	175,223	(2,939)	172,284	
Gain on exchange differences on translation of foreign operations		—	—	—	—	18,543	—	—	—	—	—	—	—	18,543	1,154	19,697	
Net gain on available-for-sale financial assets, net of deferred tax		—	—	—	—	—	—	1,176	—	—	—	—	—	1,176	—	1,176	
Other comprehensive income (loss)		—	—	—	175,223	18,543	—	1,176	—	—	—	—	—	194,942	(1,785)	193,157	
Net income		—	—	—	—	—	—	—	—	—	5,682,272	—	—	5,682,272	293,332	5,975,604	
Total comprehensive income		—	—	—	175,223	18,543	—	1,176	—	—	5,682,272	—	—	5,877,214	291,547	6,168,761	
Reversal of appropriations	18	—	—	—	—	—	—	—	—	(3,200,000)	3,200,000	—	—	—	—	—	
Cash dividends	5, 18	—	—	—	—	—	—	—	—	—	(1,798,538)	—	—	(1,798,538)	(200,000)	(1,998,538)	
As at December 31, 2016		₱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	

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Equity Reserves				Other Equity Reserves	Retained Earnings		Treasury Stock					
		Common Stock	Preferred Stock		Reserve for Retirement Plan	Cumulative Translation Reserve	Revaluation Increment	Fair Value Reserve		Appropriated	Unappropriated	Common Stock	Preferred Stock				
														Total			
As at January 1, 2015		₱1,708,748	₱150,000	₱20,500,284	(₱470,628)	(₱256,751)	₱18,219	₱3,323	₱—	₱1,200,000	₱11,564,027	(₱182,094)	₱—	₱34,235,128	₱1,727,695	₱35,962,823	
Remeasurement loss on reserve for retirement plan, net of deferred tax	26	—	—	—	(90,908)	—	—	—	—	—	—	—	—	(90,908)	(3,093)	(94,001)	
Gain on exchange differences on translation of foreign operations		—	—	—	—	48,767	—	—	—	—	—	—	—	48,767	388	49,155	
Net gain on available-for-sale financial assets, net of deferred tax		—	—	—	—	—	—	700	—	—	—	—	—	700	—	700	
Other comprehensive income (loss)		—	—	—	(90,908)	48,767	—	700	—	—	—	—	—	(41,441)	(2,705)	(44,146)	
Net income		—	—	—	—	—	—	—	—	—	4,499,555	—	—	4,499,555	252,477	4,752,032	
Total comprehensive income (loss)		—	—	—	(90,908)	48,767	—	700	—	—	4,499,555	—	—	4,458,114	249,772	4,707,886	
Redemption of outstanding preferred shares	18	—	—	—	—	—	—	—	—	—	—	—	(15,000,000)	(15,000,000)	—	(15,000,000)	
Issuance of perpetual series “2” preferred shares, net of transaction costs	18	—	150,000	14,734,497	—	—	—	—	—	—	—	—	—	14,884,497	—	14,884,497	
Appropriations		—	—	—	—	—	—	—	—	4,999,100	(4,999,100)	—	—	—	—	—	
Divestment of non-controlling interest	5	—	—	—	—	47,128	—	—	383,783	—	—	—	—	430,911	126,329	557,240	
Additions to non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—	—	40,393	40,393	
Cash dividends	5, 18	—	—	—	—	—	—	—	—	—	(1,736,403)	—	—	(1,736,403)	(400,000)	(2,136,403)	
As at December 31, 2015		₱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	

See Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Thousands)

	<i>Note</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>₱9,818,043</b>	₱8,565,063	₱6,968,678
Adjustments for:				
Depreciation and amortization	22, 24	<b>3,379,850</b>	3,277,632	3,041,528
Other charges (income) net of loss (gain) on derivative transactions		<b>(144,409)</b>	172,019	28,896
Interest income	24	<b>(111,328)</b>	(127,093)	(180,920)
Provisions for:				
Write-down of inventories	9	<b>105,023</b>	157,061	307,342
Impairment losses on receivables	8	<b>29,976</b>	173,488	23,135
Interest expense and other financing charges	24	<b>98,423</b>	132,414	389,470
Loss (gain) on fair valuation of agricultural produce	19	<b>(36,769)</b>	1,875	(28,878)
Gain on sale of investment property and property and equipment	12, 13	<b>(4,898)</b>	(127,432)	(97,772)
Impairment loss on idle assets	24	<b>–</b>	109,326	253,234
Operating income before working capital changes		<b>13,133,911</b>	12,334,353	10,704,713
Decrease (increase) in:				
Trade and other receivables		<b>(330,251)</b>	(1,244,851)	687,770
Inventories		<b>(3,688,099)</b>	(2,537,617)	1,127,494
Biological assets		<b>(300,795)</b>	197,345	1,028
Prepaid expenses and other current assets		<b>(328,625)</b>	745,434	1,130,840
Increase in trade payables and other current liabilities		<b>6,036,407</b>	984,017	784,919
Cash generated from operations		<b>14,522,548</b>	10,478,681	14,436,764
Income taxes paid		<b>(2,433,550)</b>	(2,748,935)	(2,069,177)
Net increase (decrease) in retirement liability		<b>159,858</b>	(483,613)	(129,546)
Interest received		<b>90,379</b>	101,926	149,162
Interest paid		<b>(85,424)</b>	(132,014)	(392,652)
Net cash flows provided by operating activities		<b>12,253,811</b>	7,216,045	11,994,551
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of:				
Property, plant and equipment	13	<b>(10,889,932)</b>	(6,466,740)	(3,127,786)
Investment property	12	<b>(104,204)</b>	–	–
Intangible assets	14	<b>(51,153)</b>	(51,911)	(464,351)
Increase in biological assets and other noncurrent assets		<b>(3,572,841)</b>	(2,257,290)	(2,214,933)
Proceeds from sale of investment property and property and equipment	12, 13	<b>296,166</b>	336,226	103,476
Net cash flows used in investing activities		<b>(14,321,964)</b>	(8,439,715)	(5,703,594)

Forward

	<i>Note</i>	<b>2017</b>	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availments of notes payable		<b>₱129,486,462</b>	₱126,376,245	₱265,897,684
Payments of notes payable		<b>(126,204,840)</b>	(124,833,102)	(271,071,322)
Cash dividends paid		<b>(1,847,090)</b>	(1,996,844)	(2,067,587)
Payment of stock transaction cost		<b>(10,101)</b>	—	—
Payments of current maturities of long-term debt	17, 24	—	(70,319)	(4,500,000)
Redemption of outstanding preferred shares	18	—	—	(15,000,000)
Proceeds from:				
Issuance of perpetual series "2" preferred shares, net of transaction costs	18	—	—	14,884,497
Divestment of non-controlling interest	5	—	—	557,240
Additions to non-controlling interest		<b>88,500</b>	—	15,190
Deposit for future stock subscription		<b>60,000</b>	—	—
Availments of long-term debt	17	—	—	64,809
Net cash flows provided by (used in) financing activities		<b>1,572,931</b>	(524,020)	(11,219,489)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(159)</b>	3,354	(3,493)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
		<b>(495,381)</b>	(1,744,336)	(4,932,025)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>7,539,514</b>	9,283,850	14,215,875
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	7	<b>₱7,044,133</b>	₱7,539,514	₱9,283,850

*See Notes to the Consolidated Financial Statements.*

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## **SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Thousands, Unless Otherwise Indicated)

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#### **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.

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#### **2. Basis of Preparation**

##### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 14, 2018.

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All values are rounded off to the nearest thousand (₱000), except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries in 2017, 2016 and 2015:

	Country of Incorporation	Percentage of Ownership
San Miguel Mills, Inc. (SMMI) [including Golden Bay Grain Terminal Corporation (GBGTC) and Golden Avenue Corp.]	Philippines	100.00
Magnolia, Inc. (Magnolia) [including Sugarland Corporation and Golden Food & Dairy Creamery Corporation (GFDCC)]	Philippines	100.00
San Miguel Foods, Inc. (SMFI) [including Foodcrave Marketing, Inc. <sup>(a)</sup> ]	Philippines	99.99
PT San Miguel Pure Foods Indonesia (PTSMPSFI)	Indonesia	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	60.00
RealSnacks Mfg. Corp. <sup>(b)</sup>	Philippines	100.00
San Miguel Pure Foods International, Limited (SMPFIL) [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd. (SMPFVN, formerly San Miguel Hormel (VN) Co., Ltd. (SMHVN))]	British Virgin Islands	100.00

(a) Incorporated in July 2016 and started commercial operations in March 2017.

(b) Incorporated in April 2004 and has not yet started commercial operations.

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.



The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in SMFI, PTSMPFI, SMSCCI and PF-Hormel in 2017, 2016 and 2015 (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and, (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New and Amended Standards and Interpretations

The 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 amendments to PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments resulted in improved disclosures about the net debt of an entity relevant to the understanding of its cash flows. The amendments require entities to provide disclosures that enable users of the 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 the *Amendments to PFRS 12, Disclosure of Interests in Other Entities* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the 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 consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the 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 the *Amendments to PAS 28, Investments in Associates* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The new standard has no significant impact on the consolidated financial statements of the Group.

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

The amendments can be applied prospectively for annual periods beginning on or after January 1, 2018, with retrospective or early application permitted.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty 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. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedient. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. Based on the assessment, the Group does not expect significant impact on its statement of financial position.

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

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

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

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

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

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

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12 when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by Board of Accountancy.

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

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

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

#### Financial Assets and Financial Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

*‘Day 1’ Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a ‘Day 1’ difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ difference amount.

#### Financial Assets

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

The Group has no financial assets classified as HTM investments as at December 31, 2017 and 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 the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets are classified under this category (Notes 11, 30 and 31).

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income.

Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category (Notes 7, 8, 27, 30 and 31).

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

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

The Group's investments in shares of stock included under "Other noncurrent assets" account are classified under this category (Notes 30 and 31).

#### 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 (Notes 16, 30 and 31).



*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in “Interest expense and other financing charges” account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group’s liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, excluding dividends payable and statutory liabilities, and other noncurrent liabilities, excluding operating lease liability, deposit for future stock subscription and retirement liability, are included under this category (Notes 15, 16, 27, 30 and 31).

#### Derivative Financial Instruments and Hedging

##### *Freestanding Derivatives*

For the purpose of hedge accounting, hedges are classified as either:

- (a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- (b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- (c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

*Fair Value Hedge.* Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

- (a) the hedging instrument expires, is sold, is terminated or is exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as at December 31, 2017 and 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 the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as at December 31, 2017 and 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. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gain or loss relating to the ineffective portion is recognized in the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

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

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

#### *Embedded Derivatives*

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

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

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

The Group has not bifurcated any embedded derivatives as at December 31, 2017 and 2016.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

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

### Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

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

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

#### Classification of Financial Instruments between Liability and Equity

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

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

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

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

### Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

### Offsetting Financial Instruments

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

### Inventories

Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

- |   |   |  |
|---|---|--|
| Finished goods and goods in process                                 | - | using the moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce. |
| Raw materials, feeds, feed ingredients, factory supplies and others | - | using the moving average method.   |

*Finished Goods.* Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

*Goods in Process.* Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

*Raw Materials, Feeds, Feed Ingredients, Factory Supplies and Others.* Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

### Biological Assets and Agricultural Produce

The Group's biological assets include breeding stocks, growing hogs, cattle and poultry livestock, and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock, and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

#### Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.



Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

#### Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

#### Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation of buildings and improvements, which commences when the assets are available for their intended use, is computed using the straight-line method over the estimated useful life of 20 to 40 years.

The useful lives, residual values and depreciation method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement and disposal of investment property is recognized in the consolidated statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 – 10
Buildings and improvements	5 – 50
Machinery and equipment	5 – 20
Office furniture and equipment	3 – 5
Transportation equipment	5
Factory furniture, equipment and others	2 – 5

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally-generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

The Group assessed the useful lives of trademarks and brand names, formulas and recipes, and franchise to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

### Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, trademarks and brand names, formulas and recipes, and franchise with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

#### Fair Value Measurements

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

#### Capital Stock and Additional Paid-in Capital

##### *Common Shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

##### *Preferred Shares*

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Parent Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

##### *Additional Paid-in Capital*

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

#### Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

### Treasury Shares

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Revenue from Sale of Goods*

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

#### *Revenue from Agricultural Produce*

Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

#### *Revenue from Terminal Handling*

Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from usage fees is recognized based on the gross weight of vessels entering the port multiplied by a predetermined rate.

#### *Others*

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or loss on sale of investments in shares of stock is recognized when the Group disposes of its investment in shares of stock of a subsidiary, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

### Costs and Expenses

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

### Share-based Payment Transaction

Under the Employee Stock Purchase Plan (ESPP) of SMC, employees of the Group receive remuneration in the form of share-based payment transaction, whereby the employees render services as consideration for equity instruments of SMC. Such transaction is handled centrally by SMC.

Share-based transaction in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transaction. SMC charges the Group for the costs related to such transaction. The Group recognized such costs in the consolidated statements of income.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expenses recognized for share-based payment transaction at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

#### *Operating Lease*

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

#### Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### Employee Benefits

##### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Retirement Costs*

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.



The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to the consolidated statements of income in subsequent period.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

### Foreign Currency

#### *Foreign Currency Translations*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

#### *Foreign Operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the “Cumulative translation reserve” account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statements of income as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the “Cumulative translation reserve” account in the consolidated statements of changes in equity.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

*Deferred Tax.* Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the consolidated statements of income, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT)*. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Trade payables and other current liabilities” accounts in the consolidated statements of financial position.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

#### Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments. As at December 31, 2017, 2016 and 2015, the Group has no dilutive equity instruments.

#### Operating Segments

The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm’s length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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#### **4. Use of Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

*Measurement of Biological Assets.* Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock, and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as a lessor or a lessee. The Group has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to ₱22.2 million in 2017, 2016 and 2015 (Note 29).

Rent expense recognized in the consolidated statements of income amounted to ₱2,368.2 million, ₱2,061.1 million and ₱2,093.2 million in 2017, 2016 and 2015, respectively (Notes 20, 21 and 29).

*Evaluating Deferred Tax.* In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

*Classifying Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Contingencies.* The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 34).

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

*Fair Value Measurements.* A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 9, 10, 12, 26 and 31.

*Allowance for Impairment Losses on Trade and Other Receivables.* Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to ₱746.2 million and ₱782.9 million as at December 31, 2017 and 2016, respectively (Note 8).

The carrying amount of trade and other receivables amounted to ₱11,572.6 million and ₱11,252.3 million as at December 31, 2017 and 2016, respectively (Note 8).

*Write-down of Inventory.* The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to ₱105.0 million, ₱157.1 million and ₱307.3 million in 2017, 2016 and 2015, respectively (Note 9).

The carrying amount of inventories amounted to ₱21,002.3 million and ₱17,346.9 million as at December 31, 2017 and 2016, respectively (Note 9).

*Impairment of AFS Financial Assets.* AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2017, 2016 and 2015.

The carrying amount of AFS financial assets amounted to ₱12.2 million and ₱12.0 million as at December 31, 2017 and 2016, respectively (Notes 30 and 31).

*Estimated Useful Lives of Property, Plant and Equipment and Investment Property.* The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment and investment property would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Investment property, net of accumulated depreciation and impairment losses, amounted to ₱776.8 million and ₱673.3 million at December 31, 2017 and 2016, respectively. Accumulated depreciation and impairment losses of investment property amounted to ₱12.2 million and ₱11.6 million as at December 31, 2017 and 2016, respectively (Note 12).

Property, plant and equipment, net of accumulated depreciation, amounted to ₱27,411.7 million and ₱17,671.0 million as at December 31, 2017 and 2016, respectively. Accumulated depreciation of property, plant and equipment amounted to ₱11,238.2 million and ₱10,608.3 million as at December 31, 2017 and 2016, respectively (Note 13).

*Estimated Useful Lives of Intangible Assets.* The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Computer software and licenses - net with finite useful lives amounted to ₱98.1 million and ₱154.8 million as at December 31, 2017 and 2016, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to ₱866.5 million and ₱784.7 million as at December 31, 2017 and 2016, respectively (Note 14).

*Impairment of Goodwill, Trademarks and Brand Names, Formulas and Recipes, and Franchise with Indefinite Useful Lives.* The Group determines whether goodwill, trademarks and brand names, formulas and recipes, and franchise are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names, formulas and recipes, and franchise. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names, formulas and recipes, and franchise and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of trademarks and brand names, goodwill, formulas and recipes, and franchise with indefinite useful lives amounted to ₱4,018.1 million and ₱3,991.1 million as at December 31, 2017 and 2016, respectively (Note 14).



*Acquisition Accounting.* At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The combined carrying amounts of goodwill and other intangible assets with indefinite lives arising from business combinations amounted to ₱247.8 million and ₱247.5 million as at December 31, 2017 and 2016, respectively (Note 14).

*Impairment of Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on investment property and idle assets amounted to ₱465.6 million and ₱464.2 million as at December 31, 2017 and 2016, respectively (Notes 12 and 13).

The combined carrying amounts of biological assets - net of current portion, investment property, property, plant and equipment, other intangible assets with finite useful lives, and idle assets amounted to ₱31,045.7 million and ₱20,861.6 million as at December 31, 2017 and 2016, respectively (Notes 10, 12, 13 and 14).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to ₱800.7 million and ₱878.3 million as at December 31, 2017 and 2016, respectively (Note 25).

As at December 31, 2017, temporary differences on the combined carryforward benefits of MCIT and NOLCO incurred in 2015 and which will expire in 2018 amounting to ₱187.3 million were not recognized.

As at December 31, 2016, temporary differences on the combined carryforward benefits of MCIT and NOLCO incurred in 2014 and expired in 2017 amounting to ₱141.3 million were not recognized.

Management believes that it may not be probable that sufficient future taxable profits will be available against which the combined carryforward benefits of MCIT and NOLCO can be utilized (Note 25).

*Present Value of Defined Benefit Retirement Obligation.* The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 26 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to ₱4,524.4 million and ₱3,778.1 million as at December 31, 2017 and 2016, respectively (Note 26).

*Asset Retirement Obligation.* Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as at December 31, 2017 and 2016.

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## **5. Investments in Subsidiaries**

The following are the developments relating to the Parent Company's investments in shares of stock of subsidiaries:

- (a) In January 2015, SMPFIL, a wholly-owned subsidiary of SMPFC, signed an agreement for the purchase from Hormel Netherlands B. V. (Hormel) of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats.

Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel's non-controlling interest amounting to ₱126.3 million as at January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN's obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations. This resulted in the recognition of other equity reserves amounting to ₱383.8 million presented as part of "Equity reserves" account in the 2015 consolidated statements of financial position.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd. in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of SMHVN.

- (b) On December 2, 2015, the BOD and shareholders of SMMI approved, among others, the: (i) increase in SMMI's authorized capital stock by ₱2,000.0 million, equivalent to 20,000,000 common shares at ₱100.00 par value per share, and (ii) declaration of stock dividend in favor of SMPFC amounting to ₱2,000.0 million, the equivalent number of common shares of which totalling 20,000,000 will be taken from the proposed increase in authorized capital stock.

On March 11, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMMI's authorized capital stock from ₱2,000.0 million, consisting of 20,000,000 common shares at a par value of ₱100.00 per share, to ₱4,000.0 million, consisting of 40,000,000 common shares at the same par value.

- (c) On December 2, 2015, the BOD and shareholders of PF-Hormel approved the: (i) increase in PF-Hormel's authorized capital stock by ₱2,000.0 million, equivalent to 2,000,000,000 common shares at ₱1.00 par value per share, and (ii) declaration of stock dividend in favor of existing shareholders amounting to ₱2,000.0 million, the equivalent number of common shares of which totalling 2,000,000,000 will be taken from the proposed increase in authorized capital stock.

On April 15, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in PF-Hormel's authorized capital stock from ₱1,500.0 million, consisting of 1,500,000,000 common shares at a par value of ₱1.00 per share, to ₱3,500.0 million, consisting of 3,500,000,000 common shares at the same par value.

- (d) On June 28, 2016, the BOD and shareholders of Magnolia approved, among others, the: (i) increase in Magnolia's authorized capital stock by ₱2,000.0 million, equivalent to 2,000,000,000 common shares at ₱1.00 par value per share, and (ii) declaration of stock dividend in favor of SMPFC amounting to ₱600.0 million, equivalent number of common shares of which totalling 600,000,000 will be taken from the proposed increase in authorized capital stock.

On December 23, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in Magnolia's authorized capital stock from ₱1,000.0 million, consisting of 1,000,000,000 common shares at a par value of ₱1.00 per share, to ₱3,000.0 million, consisting 3,000,000,000 common shares at the same par value.

- (e) On June 8, 2017, the BOD and shareholders of SMFI approved, among others, the:
  - (i) increase in SMFI's authorized capital stock by ₱5,000.0 million, equivalent to 50,000,000 common shares at ₱100.00 par value per share, and (ii) amendment to Article VII of SMFI's Articles of Incorporation to reflect such increase.

On January 10, 2018, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMFI's authorized capital stock, from ₱10,000.0 million, consisting of 85,000,000 common shares and 15,000,000 preferred shares both with par value of ₱100.00 per share, to ₱15,000.0 million, consisting of 135,000,000 common shares and 15,000,000 preferred shares at the same par value.

The details of the Group's material non-controlling interests are as follows:

	2017			2016			2015		
	PF- HORMEL	SMSCCI	PTSMPI	PF- HORMEL	SMSCCI	PTSMPI	PF- HORMEL	SMSCCI	PTSMPI
Percentage of non-controlling interests	40%	30%	25%	40%	30%	25%	40%	30%	25%
Carrying amount of non-controlling interests	<b>₱2,305,869</b>	<b>(₱57,320)</b>	<b>(₱9,522)</b>	<b>₱1,933,476</b>	<b>(₱109,349)</b>	<b>₱8,219</b>	<b>₱1,769,056</b>	<b>(₱61,342)</b>	<b>₱33,387</b>
Net income (loss) attributable to non-controlling interests	<b>₱389,978</b>	<b>(₱36,359)</b>	<b>(₱17,215)</b>	<b>₱367,114</b>	<b>(₱48,131)</b>	<b>(₱25,936)</b>	<b>₱347,306</b>	<b>(₱63,555)</b>	<b>(₱17,975)</b>
Other comprehensive income (loss) attributable to non-controlling interests	<b>(₱17,585)</b>	<b>(₱112)</b>	<b>(₱526)</b>	<b>(₱2,694)</b>	<b>₱124</b>	<b>₱768</b>	<b>(₱2,774)</b>	<b>₱27</b>	<b>(₱40)</b>
Dividends declared to non-controlling interests	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱200,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱400,000</b>	<b>₱-</b>	<b>₱-</b>

Summarized financial information of investments in subsidiaries with material non-controlling interests:

	2017			2016			2015		
	PF- HORMEL	SMSCCI	PTSMPI	PF- HORMEL	SMSCCI	PTSMPI	PF- HORMEL	SMSCCI	PTSMPI
Current assets	<b>₱8,263,706</b>	<b>₱415,618</b>	<b>₱157,362</b>	<b>₱6,936,131</b>	<b>₱438,441</b>	<b>₱243,129</b>	<b>₱5,855,774</b>	<b>₱373,931</b>	<b>₱292,991</b>
Noncurrent assets	<b>7,058,285</b>	<b>85,180</b>	<b>74,316</b>	<b>3,957,264</b>	<b>113,030</b>	<b>75,866</b>	<b>3,278,455</b>	<b>106,517</b>	<b>75,701</b>
Current liabilities	<b>(9,410,787)</b>	<b>(491,182)</b>	<b>(260,277)</b>	<b>(6,012,849)</b>	<b>(915,737)</b>	<b>(295,102)</b>	<b>(4,674,301)</b>	<b>(684,031)</b>	<b>(249,342)</b>
Noncurrent liabilities	<b>(146,532)</b>	<b>(200,684)</b>	<b>(57,150)</b>	<b>(46,856)</b>	<b>(231)</b>	<b>(37,376)</b>	<b>(37,289)</b>	<b>(891)</b>	<b>(30,256)</b>
<b>Net assets (liabilities)</b>	<b>₱5,764,672</b>	<b>(₱191,068)</b>	<b>(₱85,749)</b>	<b>₱4,833,690</b>	<b>(₱364,497)</b>	<b>(₱13,483)</b>	<b>₱4,422,639</b>	<b>(₱204,474)</b>	<b>₱89,094</b>
Revenues	<b>₱18,803,951</b>	<b>₱598,250</b>	<b>₱565,326</b>	<b>₱17,409,770</b>	<b>₱725,122</b>	<b>₱565,219</b>	<b>₱16,251,709</b>	<b>₱710,952</b>	<b>₱616,693</b>
Net income (loss)	<b>₱974,945</b>	<b>(₱121,197)</b>	<b>(₱74,061)</b>	<b>₱917,786</b>	<b>(₱160,436)</b>	<b>(₱107,192)</b>	<b>₱868,265</b>	<b>(₱210,406)</b>	<b>(₱69,176)</b>
Other comprehensive income (loss)	<b>(43,963)</b>	<b>(374)</b>	<b>-</b>	<b>(6,735)</b>	<b>413</b>	<b>-</b>	<b>(6,936)</b>	<b>90</b>	<b>-</b>
<b>Total comprehensive income (loss)</b>	<b>₱930,982</b>	<b>(₱121,571)</b>	<b>(₱74,061)</b>	<b>₱911,051</b>	<b>(₱160,023)</b>	<b>(₱107,192)</b>	<b>₱861,329</b>	<b>(₱210,316)</b>	<b>(₱69,176)</b>
Cash flows provided by (used in) operating activities	<b>₱2,462,654</b>	<b>(₱38,584)</b>	<b>₱1,820</b>	<b>₱573,725</b>	<b>(₱239,334)</b>	<b>₱26,990</b>	<b>₱872,822</b>	<b>₱34,310</b>	<b>(₱52,293)</b>
Cash flows provided by (used in) investing activities	<b>(3,377,435)</b>	<b>-</b>	<b>(17,360)</b>	<b>(973,021)</b>	<b>237</b>	<b>(28,083)</b>	<b>197,150</b>	<b>-</b>	<b>(21,150)</b>
Cash flows provided by (used in) financing activities	<b>805,376</b>	<b>54,725</b>	<b>(1,841)</b>	<b>708,881</b>	<b>227,779</b>	<b>(1,567)</b>	<b>(1,015,944)</b>	<b>(23,617)</b>	<b>79,302</b>
Effects of exchange rate changes on cash and cash equivalents	<b>-</b>	<b>3</b>	<b>(113)</b>	<b>-</b>	<b>157</b>	<b>2,171</b>	<b>-</b>	<b>(174)</b>	<b>(1,100)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(₱109,405)</b>	<b>₱16,144</b>	<b>(₱17,494)</b>	<b>₱309,585</b>	<b>(₱11,161)</b>	<b>(₱489)</b>	<b>₱54,028</b>	<b>₱10,519</b>	<b>₱4,759</b>

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## 6. Segment Information

### Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed 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.

### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of trade payables and other current liabilities, and other noncurrent liabilities, excluding interest and dividends payable. Segment assets and liabilities do not include deferred income taxes.

### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in 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.

## Operating Segments

Financial information about reportable segments follows:

	Agro-Industrial			Branded Value-Added			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
<i>(Amounts in Millions)</i>																					
Revenues																					
External	<b>P78,730</b>	P74,464	P70,847	<b>P29,090</b>	P27,339	P25,446	<b>P7,892</b>	P8,253	P8,905	<b>P115,712</b>	P110,056	P105,198	<b>P1,737</b>	P1,530	P1,662	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P117,449</b>	P111,586	P106,860
Inter-segment	<b>2,072</b>	2,030	1,712	<b>5</b>	29	59	<b>1,614</b>	1,542	1,351	<b>3,691</b>	3,601	3,122	<b>-</b>	4	-	<b>(3,691)</b>	(3,605)	(3,122)	<b>-</b>	-	-
Total revenues	<b>P80,802</b>	P76,494	P72,559	<b>P29,095</b>	P27,368	P25,505	<b>P9,506</b>	P9,795	P10,256	<b>P119,403</b>	P113,657	P108,320	<b>P1,737</b>	P1,534	P1,662	<b>(P3,691)</b>	(P3,605)	(P3,122)	<b>P117,449</b>	P111,586	P106,860
Result																					
Segment operating result	<b>P5,636</b>	P3,992	P2,791	<b>P2,652</b>	P2,589	P2,305	<b>P1,504</b>	P1,861	P2,103	<b>P9,792</b>	P8,442	P7,199	<b>P128</b>	P484	P449	<b>P5</b>	<b>P5</b>	<b>(P4)</b>	<b>P9,925</b>	P8,931	P7,644
Interest expense and other financing charges	(5)	(13)	(244)	<b>(45)</b>	(62)	(55)	<b>(26)</b>	(35)	(39)	<b>(76)</b>	(110)	(338)	<b>(24)</b>	(23)	(53)	<b>2</b>	1	2	<b>(98)</b>	(132)	(389)
Interest income	<b>29</b>	24	28	<b>26</b>	38	23	<b>14</b>	14	12	<b>69</b>	76	63	<b>44</b>	52	120	<b>(2)</b>	(1)	(2)	<b>111</b>	127	181
Gain (loss) on sale of investment property, and property and equipment	<b>5</b>	119	99	<b>(1)</b>	2	-	-	-	-	<b>4</b>	121	99	<b>1</b>	6	(1)	-	-	-	<b>5</b>	127	98
Other income (charges) - net	<b>(99)</b>	(210)	(107)	<b>5</b>	(70)	(46)	-	(19)	(4)	<b>(94)</b>	(299)	(157)	<b>2,869</b>	984	(402)	<b>(2,900)</b>	(1,173)	(6)	<b>(125)</b>	(488)	(565)
Income tax benefit (expense)	<b>(1,659)</b>	(1,158)	(762)	<b>(853)</b>	(801)	(764)	<b>(424)</b>	(471)	(578)	<b>(2,936)</b>	(2,430)	(2,104)	<b>24</b>	(158)	(123)	-	(1)	10	<b>(2,912)</b>	(2,589)	(2,217)
Net income (loss)	<b>P3,907</b>	P2,754	P1,805	<b>P1,784</b>	P1,696	P1,463	<b>P1,068</b>	P1,350	P1,494	<b>P6,759</b>	P5,800	P4,762	<b>P3,042</b>	P1,345	<b>(P10)</b>	<b>(P2,895)</b>	(P1,169)	<b>P-</b>	<b>P6,906</b>	P5,976	P4,752
Net income attributable to:																					
Equity holders of the Parent Company																			<b>P6,569</b>	P5,682	P4,500
Non-controlling interests																			<b>337</b>	294	252
Net income																			<b>P6,906</b>	P5,976	P4,752
Segments assets	<b>P38,911</b>	P30,809	P26,623	<b>P21,637</b>	P16,344	P14,268	<b>P10,604</b>	P9,403	P8,627	<b>P71,152</b>	P56,556	P49,518	<b>P57,676</b>	P50,730	P48,072	<b>(P51,871)</b>	(P45,295)	(P41,679)	<b>P76,957</b>	P61,991	P55,911
Trademarks and other intangible assets - net	<b>24</b>	59	70	<b>273</b>	262	232	<b>13</b>	27	40	<b>310</b>	348	342	<b>5,124</b>	5,116	5,231	<b>(1,318)</b>	(1,318)	(1,318)	<b>4,116</b>	4,146	4,255
Deferred tax assets	<b>449</b>	426	457	<b>167</b>	216	256	<b>32</b>	30	20	<b>648</b>	672	733	<b>82</b>	136	68	<b>71</b>	70	71	<b>801</b>	878	872
Consolidated total assets	<b>P39,384</b>	P31,294	P27,150	<b>P22,077</b>	P16,822	P14,756	<b>P10,649</b>	P9,460	P8,687	<b>P72,110</b>	P57,576	P50,593	<b>P62,882</b>	P55,982	P53,371	<b>(P53,118)</b>	(P46,543)	(P42,926)	<b>P81,874</b>	P67,015	P61,038
Segment liabilities	<b>P14,112</b>	P10,832	P10,815	<b>P8,533</b>	P5,283	P4,872	<b>P1,298</b>	P1,143	P1,241	<b>P23,943</b>	P17,258	P16,928	<b>P2,481</b>	P2,232	P2,452	<b>(P1,900)</b>	(P1,248)	(P1,538)	<b>P24,524</b>	P18,242	P17,842
Dividends payable and others	-	-	-	<b>13</b>	1	105	<b>1</b>	-	-	<b>14</b>	1	105	<b>9</b>	8	7	-	-	(105)	<b>23</b>	9	7
Notes payable	<b>1,697</b>	337	-	<b>4,618</b>	3,656	2,033	<b>1,944</b>	976	1,438	<b>8,259</b>	4,969	3,471	<b>148</b>	157	105	-	-	-	<b>8,407</b>	5,126	3,576
Current maturities of long-term debt - net of debt issue costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65	-	-	-	-	-	65
Income tax payable	<b>313</b>	-	-	<b>323</b>	320	375	<b>108</b>	104	130	<b>744</b>	424	505	<b>1</b>	-	-	-	-	-	<b>745</b>	424	505
Deferred tax liabilities	-	-	-	<b>1</b>	1	-	-	-	-	<b>1</b>	1	-	<b>3</b>	3	3	<b>23</b>	23	23	<b>27</b>	27	26
Consolidated total liabilities	<b>P16,122</b>	P11,169	P10,815	<b>P13,488</b>	P9,261	P7,385	<b>P3,351</b>	P2,223	P2,809	<b>P32,961</b>	P22,653	P21,009	<b>P2,642</b>	P2,400	P2,632	<b>(P1,877)</b>	(P1,225)	(P1,620)	<b>P33,726</b>	P23,828	P22,021
Other Information:																					
Capital expenditures	<b>P4,776</b>	P4,053	P1,593	<b>P3,583</b>	P1,340	P490	<b>P1,770</b>	P895	P950	<b>P10,129</b>	P6,288	P3,033	<b>P761</b>	P179	P95	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P10,890</b>	P6,467	P3,128
Depreciation and amortization	<b>2,541</b>	2,348	2,131	<b>386</b>	374	391	<b>320</b>	307	271	<b>3,247</b>	3,029	2,793	<b>133</b>	249	249	-	-	-	<b>3,380</b>	3,278	3,042
Impairment loss on idle assets	-	-	-	-	-	-	-	-	-	-	-	-	-	109	253	-	-	-	-	109	253

## 7. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash in banks and on hand	₱2,168,999	₱1,786,795
Short-term investments	4,875,134	5,752,719
	<b>₱7,044,133</b>	<b>₱7,539,514</b>

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 24).

## 8. Trade and Other Receivables

This account consists of:

	Note	2017	2016
Trade		₱11,027,229	₱10,588,020
Non-trade		905,850	1,131,856
Amounts owed by related parties	27	385,714	315,312
		<b>12,318,793</b>	<b>12,035,188</b>
Less allowance for impairment losses	4	746,218	782,922
		<b>₱11,572,575</b>	<b>₱11,252,266</b>

Trade receivables are non-interest bearing and are generally on a 30-day term.

Non-trade receivables include advances to contract growers and breeders, receivables from truckers and toll partners, and insurance claims for the value of certain inventories and property, plant and equipment damaged by typhoons.

The movements in the allowance for impairment losses follow:

	2017	2016
Balance at beginning of year	₱782,922	₱650,024
Charges for the year	29,976	173,488
Amounts written off	(66,793)	(50,606)
Cumulative translation reserve and others	113	10,016
Balance at end of year	<b>₱746,218</b>	<b>₱782,922</b>

As at December 31, 2017 and 2016, the aging of receivables is as follows:

	Amounts Owed by Related Parties			Total
2017	Trade	Non-trade		
Current	₱6,805,654	₱266,809	₱139,492	₱7,211,955
Past due				
1-30 days	2,439,530	119,760	42,922	2,602,212
31-60 days	385,852	86,078	138	472,068
61-90 days	160,253	30,522	242	191,017
Over 90 days	1,235,940	402,681	202,920	1,841,541
	<b>₱11,027,229</b>	<b>₱905,850</b>	<b>₱385,714</b>	<b>₱12,318,793</b>



2016	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	₱6,841,573	₱436,204	₱115,344	₱7,393,121
Past due				
1-30 days	2,493,427	135,755	22,787	2,651,969
31-60 days	348,075	188,807	22,620	559,502
61-90 days	83,571	37,162	6,763	127,496
Over 90 days	821,374	333,928	147,798	1,303,100
	<b>₱10,588,020</b>	<b>₱1,131,856</b>	<b>₱315,312</b>	<b>₱12,035,188</b>

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 30).

## 9. Inventories

This account consists of:

	2017	2016
At net realizable value:		
Finished goods and goods in process	<b>₱4,350,997</b>	₱4,272,918
Raw materials, feeds and feed ingredients	<b>16,651,317</b>	13,074,013
	<b>₱21,002,314</b>	<b>₱17,346,931</b>

The cost of finished goods and goods in process amounted to ₱4,442.4 million and ₱4,395.8 million as at December 31, 2017 and 2016, respectively. The cost of raw materials, feeds and feed ingredients amounted to ₱16,724.3 million and ₱13,146.6 million as at December 31, 2017 and 2016, respectively.

Write-down of inventories amounted to ₱105.0 million, ₱157.1 million and ₱307.3 million in 2017, 2016 and 2015, respectively.

The cost of inventories used recognized under “Cost of sales” account in consolidated statements of income amounted to ₱79,580.1 million, ₱76,545.5 million and ₱75,790.7 million in 2017, 2016 and 2015, respectively (Note 20).

The fair value of agricultural produce less costs to sell, which formed part of the cost of the finished goods inventory, amounted to ₱442.4 million and ₱466.0 million as at December 31, 2017 and 2016, respectively, with corresponding costs at point of harvest amounting to ₱405.6 million and ₱467.9 million, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to ₱36.8 million, (₱1.9 million) and ₱28.9 million in 2017, 2016 and 2015, respectively (Note 19).

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group’s agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

## 10. Biological Assets

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Current:			
Growing stocks	4	<b>₱2,847,697</b>	₱2,748,929
Goods in process	4	<b>574,641</b>	372,614
		<b>3,422,338</b>	3,121,543
Noncurrent:			
Breeding stocks - net	4	<b>2,695,257</b>	2,263,279
		<b>₱6,117,595</b>	₱5,384,822

The amortization of breeding stocks recognized in the consolidated statements of income amounted to ₱2,161.3 million, ₱1,947.2 million and ₱1,769.0 million in 2017, 2016 and 2015, respectively (Note 22).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>Cost</b>			
Balance at beginning of year		<b>₱6,653,984</b>	₱6,589,656
Increase (decrease) due to:			
Production		<b>41,011,973</b>	40,974,331
Purchases		<b>1,106,091</b>	499,784
Mortality		<b>(676,521)</b>	(709,506)
Harvest		<b>(38,475,890)</b>	(38,880,159)
Retirement		<b>(2,070,452)</b>	(1,820,122)
Balance at end of year		<b>7,549,185</b>	6,653,984
<b>Accumulated Amortization</b>			
Balance at beginning of year		<b>1,269,162</b>	1,093,376
Additions	22	<b>2,161,301</b>	1,947,215
Retirement		<b>(1,998,873)</b>	(1,771,429)
Balance at end of year		<b>1,431,590</b>	1,269,162
<b>Carrying Amount</b>		<b>₱6,117,595</b>	₱5,384,822

The Group harvested approximately 523.6 million and 508.3 million kilograms of grown broilers in 2017 and 2016, respectively, and 0.59 million and 0.65 million heads of marketable hogs and cattle in 2017 and 2016, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to ₱42,970.7 million and ₱47,015.6 million in 2017 and 2016, respectively.

## 11. Prepaid Expenses and Other Current Assets

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Input tax		<b>₱1,419,079</b>	₱1,108,239
Prepaid income tax		<b>175,850</b>	198,755
Derivative assets	30, 31	<b>50,274</b>	7,062
Others	27	<b>178,274</b>	204,142
		<b>₱1,823,477</b>	₱1,518,198

“Others” includes prepaid insurance, advance payments and deposits, and prepayments for various operating expenses.

The methods and assumptions used to estimate the fair value of derivative assets are discussed in Note 31.

## 12. Investment Property

The movements in investment property are as follows:

	<i>Note</i>	<b>Land</b>	<b>Buildings and Improvements</b>	<b>Total</b>
<b>Cost</b>				
December 31, 2015		₱633,709	₱13,027	₱646,736
Additions		3,500	—	3,500
Disposals		(551)	—	(551)
Reclassifications		35,169	—	35,169
December 31, 2016		671,827	13,027	684,854
Additions		104,204	—	104,204
<b>December 31, 2017</b>		<b>776,031</b>	<b>13,027</b>	<b>789,058</b>
<b>Accumulated Depreciation</b>				
December 31, 2015		—	2,483	2,483
Additions	22	—	642	642
December 31, 2016		—	3,125	3,125
Additions		—	642	642
December 31, 2017		—	3,767	3,767
<b>Accumulated Impairment Losses</b>				
December 31, 2015, 2016 and 2017		8,473	—	8,473
<b>Carrying Amount</b>				
December 31, 2016		₱663,354	₱9,902	₱673,256
<b>December 31, 2017</b>		<b>₱767,558</b>	<b>₱9,260</b>	<b>₱776,818</b>

No impairment loss was recognized in 2017, 2016 and 2015.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2017, 2016 and 2015.

The fair value of investment property amounting to ₱1,736.1 million and ₱1,590.7 million as at December 31, 2017 and 2016, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined either by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, or by the credit management group of the Parent Company. The independent appraisers or the credit management group of the Parent Company provide the fair value of the Group's investment property annually.

#### Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

### 13. Property, Plant and Equipment

This account consists of:

		Land and Land	Buildings and	Machinery Equipment, Furniture and Others	Transportation Equipment	Capital Projects in Progress	Total
	Note	Improvements	Improvements				
<b>Cost</b>							
December 31, 2015		₱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		2,956,868	6,668,416	10,975,995	307,658	7,370,337	28,279,274
Additions		698,892	150,575	515,970	297,481	9,227,014	10,889,932
Disposals		—	—	(267,612)	(320,943)	—	(588,555)
Transfers, reclassifications and others		—	—	10,820	—	59,228	70,048
Cumulative translation reserve		(101)	(23)	(549)	(44)	—	(717)
December 31, 2017		3,655,659	6,818,968	11,234,624	284,152	16,656,579	38,649,982
<b>Accumulated Depreciation</b>							
December 31, 2015		364,745	2,264,888	6,758,893	378,281	—	9,766,807
Additions	22	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		373,778	2,573,538	7,371,164	289,799	—	10,608,279
Additions	22	15,446	255,074	640,030	6,594	—	917,144
Disposals		—	—	(260,792)	(36,495)	—	(297,287)
Transfers, reclassifications and others		—	—	10,820	—	—	10,820
Cumulative translation reserve		—	(62)	(608)	(44)	—	(714)
December 31, 2017		389,224	2,828,550	7,760,614	259,854	—	11,238,242
<b>Carrying Amount</b>							
December 31, 2016		₱2,583,090	₱4,094,878	₱3,604,831	₱17,859	₱7,370,337	₱17,670,995
<b>December 31, 2017</b>		<b>₱3,266,435</b>	<b>₱3,990,418</b>	<b>₱3,474,010</b>	<b>₱24,298</b>	<b>₱16,656,579</b>	<b>₱27,411,740</b>

Depreciation recognized in the consolidated statements of income amounted to ₱17.1 million, ₱982.2 million and ₱897.3 million in 2017, 2016 and 2015, respectively (Note 22).

The Group has interest amounting to ₱60.2 million and ₱7.0 million which was capitalized in 2017 and 2016, respectively. There was no interest capitalized by the Group in 2015. The capitalization rates used to determine the amount of interest eligible for capitalization ranges from 3.10% to 4.26% and 2.00% to 2.38% in 2017 and 2016, respectively. The amortization of capitalized interest amounted to ₱1.6 million in 2017, 2016 and 2015. Unamortized balance of capitalized interest as at December 31, 2017, 2016 and 2015 amounted to ₱95.4 million, ₱36.9 million and ₱31.5 million, respectively.

Idle assets, net of accumulated depreciation and impairment losses, which is included under “Other noncurrent assets” account, amounted to ₱63.8 million and ₱99.2 million as at December 31, 2017 and 2016, respectively. Accumulated impairment losses on idle assets amounted to ₱457.1 million and ₱455.7 million as at December 31, 2017 and 2016, respectively.

#### 14. Trademarks and Other Intangible Assets

This account consists of:

	2017	2016
Trademarks and brand names	<b>₱3,776,528</b>	₱3,749,485
Goodwill	<b>177,029</b>	177,029
Computer software and licenses - net	<b>98,071</b>	154,827
Formulas and recipes	<b>57,591</b>	57,591
Franchise	<b>7,000</b>	7,000
	<b>₱4,116,219</b>	₱4,145,932

The movements in trademarks and other intangible assets are as follows:

	Note	Trademarks and Brand Names	Goodwill	Others	Total
<b>Cost</b>					
December 31, 2015		₱3,746,558	₱177,029	₱951,705	₱4,875,292
Additions		—	—	51,911	51,911
Cumulative translation reserve		2,927	—	521	3,448
December 31, 2016		3,749,485	177,029	1,004,137	4,930,651
Additions		26,786	—	24,367	51,153
Reclassifications		—	—	735	735
Cumulative translation reserve		257	—	(29)	228
December 31, 2017		3,776,528	177,029	1,029,210	4,982,767
<b>Accumulated Amortization</b>					
December 31, 2015		—	—	620,210	620,210
Additions	22	—	—	164,018	164,018
Cumulative translation reserve		—	—	491	491
December 31, 2016		—	—	784,719	784,719
Additions	22	—	—	81,857	81,857
Cumulative translation reserve		—	—	(28)	(28)
December 31, 2017		—	—	866,548	866,548
<b>Carrying Amount</b>					
December 31, 2016		₱3,749,485	₱177,029	₱219,418	₱4,145,932
<b>December 31, 2017</b>		<b>₱3,776,528</b>	<b>₱177,029</b>	<b>₱162,662</b>	<b>₱4,116,219</b>

Trademarks and brand names include SMC's food-related brands and intellectual property rights amounting to ₱3,200.0 million transferred to SMPFC pursuant to the Intellectual Property Rights Transfer Agreement entered into by SMPFC and SMC in July 2010.

In February 2015, the acquisition by SMPFC of Felicisimo Martinez & Co. Inc.'s (FMC) trademarks, formulations, recipes and other intangible properties relating to *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions of the Intellectual Property Rights Transfer Agreement and the payment of the consideration.

In September 2017, SMPFC entered into separate Intellectual Property Rights Transfer Agreements (the "Agreements") with POMS Ventures Corporation (PVC) and Agana Circle Enterprises, Inc. (ACEI) for the transfer to SMPFC of several Philippine cooking oil trademarks, brands and logos registered in the name of PVC and ACEI (collectively, the "IP Rights"), subject to the fulfillment of certain terms and conditions specified in the Agreements. In December 2017, the acquisition by SMPFC of the IP Rights was completed following the substantial fulfillment of the closing conditions of the Agreements and the payment of the consideration for such IP Rights.

The recoverable amount of the trademarks and brand names was determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections was 9% in 2017 and 2016.

No impairment loss was recognized for trademarks and brand names in 2017, 2016 and 2015.

Goodwill acquired through business combinations which has been allocated to individual cash-generating units for impairment testing amounted to ₱170.8 million and ₱6.2 million as at December 31, 2017 and 2016 for PTSMPFI and Magnolia (through its subsidiary, GFDCC), respectively.

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 9% to 13% for 2017 and 2016. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium (Note 4).

No impairment loss on goodwill was recognized in 2017, 2016 and 2015.

The Parent Company used the weighted average cost of capital as the discount rate, which reflected management's estimate of the risk. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of trademarks and brand names, and goodwill are based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

## 15. Notes Payable

This account consists of:

	<i>Note</i>	<b>2017</b>	2016
Peso-denominated		<b>₱8,259,256</b>	₱4,968,756
Foreign currency-denominated		<b>147,668</b>	157,095
	<i>30, 31</i>	<b>₱8,406,924</b>	₱5,125,851

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans ranged from 2.25% to 4.26% and 2.00% to 3.00% in 2017 and 2016, respectively. Interest rates for foreign currency-denominated loans ranged from 6.50% to 9.20% and 7.00% to 11.10% in 2017 and 2016, respectively (Note 24).

Notes payable include interest-bearing loans payable to a related party amounting to ₱2,024.5 million as at December 31, 2017 (Note 27).

Notes payable of the Group are not subject to covenants and warranties.

Supplemental information with respect to the consolidated statements of cash flows for the changes in liabilities arising from financing activities is presented below:

Balance as at January 1, 2017	₱5,125,851
Changes from financing cash flows:	
Proceeds from borrowings	129,486,462
Payments of borrowings	(126,204,840)
Total changes from financing cash flows	3,281,622
Effect of changes in foreign exchange rates	(549)
Balance as at December 31, 2017	₱8,406,924

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**16. Trade Payables and Other Current Liabilities**

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Trade		<b>₱13,776,300</b>	₱9,433,595
Non-trade		<b>6,295,423</b>	5,349,134
Amounts owed to related parties	27	<b>2,107,651</b>	1,562,350
Output VAT		<b>796,249</b>	705,573
Derivative liabilities	30, 31	<b>49,859</b>	176,214
Others		<b>811,361</b>	764,710
		<b>₱23,836,843</b>	₱17,991,576

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees and tolling fees.

"Others" include other tax-related and payroll-related accruals, accrued interest payable and dividends payable.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 31.

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**17. Current Maturities of Long-term Debt - Net of Debt Issue Costs**

This account pertains to unsecured facility loans entered into by PTSMPFI on various dates with a foreign bank amounting to Indonesian Rupiah 19.0 billion (US\$1.3 million or ₱64.8 million as at December 31, 2015) with fixed interest rates of 12.85%, 12.45% and 13.27% maturing in 2016. Proceeds were used to refinance capital expenditure requirements. These loans were fully paid at Philippine peso equivalent of ₱70.3 million on December 9, 2016.

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 30.

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**18. Equity**

(a) *The significant changes in equity are summarized below:*

On February 2, 2010 and March 12, 2010, the Parent Company's BOD and stockholders, respectively, approved the: (i) de-classification of the Parent Company's common shares and increase in the Parent Company's authorized capital stock by ₱1,000.0 million or 100,000,000 shares at ₱10.00 par value, and (ii) declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved the Parent Company's amendment to its Articles of Incorporation for the de-classification of common shares.



On May 21, 2010, the SEC issued to the Parent Company the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of ₱10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the PSE approved the application of the Parent Company to list additional 25,423,746 common shares, with a par value of ₱10.00 per share, to cover the 18% stock dividend declaration to stockholders of record as at June 30, 2010. Stock dividend distribution was made on July 26, 2010.

On September 15, 2010, the Parent Company's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of ₱10.00 per share; (ii) issuance of preferred shares with total issue size of up to ₱50,000.0 million; (iii) listing of such preferred shares at the appropriate exchanges, and (iv) amendment of the Parent Company's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, the Parent Company's stockholders approved, among others, the: (i) reclassification of the Parent Company's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of ₱10.00 per share; (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges; and (iii) amendment of the Parent Company's Articles of Incorporation to reflect the reclassification of 40,000,000 common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares (Amendment).

On December 23, 2010, the SEC approved the foregoing Amendment to the Articles of Incorporation of the Parent Company.

*(b) Capital Stock*

The Parent Company's capital stock, at ₱10 par value, consists of the following number of shares as at December 31, 2017 and 2016:

<b>Authorized shares</b>	
Common	206,000,000
Preferred	40,000,000
	<hr/> 246,000,000 <hr/>
<b>Issued shares</b>	
Common	170,874,854
Preferred	30,000,000
	<hr/> 200,874,854 <hr/>

Common Shares

On November 23, 2012, SMC completed the secondary offering of a portion of its common shares of stock in the Parent Company following the crossing of such shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares at a price of ₱240.00 per share. The completion of the secondary offering resulted in the increase of the Parent Company's public ownership from 0.08% to 15.08% of its outstanding common shares.

The Parent Company has a total of 131 and 132 common stockholders as at December 31, 2017 and 2016, respectively.

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

On January 20, 2011, the SEC favorably considered the Parent Company's Registration Statement covering the registration of 15,000,000 preferred shares (PFP Shares) with a par value of ₱10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of the Parent Company to list up 15,000,000 PFP Shares with a par value of ₱10.00 per share to cover the Parent Company's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of the Parent Company's 15,000,000 PFP Shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, the Parent Company's BOD approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of the Parent Company to reflect the additional optional redemption features of the preferred shares, to align with the Terms of the Offer. The stockholders of the Parent Company approved the said amendment during its annual meeting on May 13, 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 5<sup>th</sup> 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 5<sup>th</sup> year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events), as well as on the 3<sup>rd</sup> 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 5<sup>th</sup> 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 March 3, 2011, the Parent Company's 15,000,000 PFP Shares with par value of ₱10.00 per share were issued and listed with the PSE.

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of the Parent Company.

On November 5, 2014, the BOD of SMPFC approved, among others, the: (i) public offer of up to 25,000,000 preferred shares at an issue price of ₱1,000.00 per share from the Parent Company's unissued capital stock as covered by the previous approval of the stockholders in its Special Stockholders' meeting held on November 3, 2010; and (ii) registration and listing of such preferred shares at the appropriate exchanges.

On February 3, 2015, SMPFC's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding PFP Shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

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

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

On January 20, 2015, the BOD of the PSE approved, subject to SEC approval and certain conditions, the application of 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 SMPFC'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 3<sup>rd</sup> 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 5<sup>th</sup> 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.

The Parent Company has a total of 108 and 101 preferred stockholders as at December 31, 2017 and 2016, respectively.

*(c) Treasury Shares*

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

*(d) Unappropriated Retained Earnings*

The Group's unappropriated retained earnings includes the accumulated earnings in subsidiaries which is not available for declaration as dividends until declared by the respective investees.

The Parent Company's retained earnings as at December 31, 2017 and 2016 is restricted in the amount of ₱182.1 million representing the cost of common shares held in treasury.

*(e) Appropriated Retained Earnings*

- (i) In March 2014, the BOD of 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 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 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.

(f) *Cash Dividends*

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

**2017**

<b>Class of Shares</b>	<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividend per Share</b>
<b>Common</b>	February 2, 2017	February 17, 2017	March 1, 2017	₱1.50
	May 9, 2017	May 24, 2017	June 8, 2017	1.50
	August 9, 2017	August 24, 2017	September 7, 2017	1.50
	November 9, 2017	November 28, 2017	December 8, 2017	1.50
<b>Preferred</b>				
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
	November 9, 2017	November 28, 2017	December 12, 2017	14.14225

**2016**

<b>Class of Shares</b>	<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividend per Share</b>
<b>Common</b>	February 2, 2016	February 18, 2016	March 1, 2016	₱1.20
	May 6, 2016	May 23, 2016	June 3, 2016	1.50
	August 8, 2016	August 23, 2016	September 6, 2016	1.50
	November 8, 2016	November 23, 2016	December 7, 2016	1.50
<b>Preferred</b>				
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
	November 8, 2016	November 23, 2016	December 12, 2016	14.14225

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**19. Revenues**

This account consists of:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Sale of goods	<b>₱117,371,581</b>	₱111,554,223	₱106,795,756
Fair valuation adjustments on agricultural produce - net	<b>36,769</b>	(1,875)	28,878
Service revenue and others	<b>40,202</b>	33,213	35,604
	<b>₱117,448,552</b>	₱111,585,561	₱106,860,238

## 20. Cost of Sales

This account consists of:

	<i>Note</i>	2017	2016	2015
Inventories used	9, 34	<b>₱79,580,083</b>	₱76,545,536	₱75,790,728
Depreciation and amortization	22	<b>3,003,985</b>	2,847,840	2,563,754
Freight, trucking and handling		<b>2,641,379</b>	2,446,920	2,086,498
Communication, light and water		<b>1,560,814</b>	1,376,594	1,351,604
Personnel expenses	23	<b>1,304,396</b>	1,196,436	817,065
Repairs and maintenance		<b>378,210</b>	369,605	424,901
Rentals	4, 29	<b>254,279</b>	248,596	197,293
Others		<b>1,145,013</b>	920,904	877,683
		<b>₱89,868,159</b>	₱85,952,431	₱84,109,526

## 21. Selling and Administrative Expenses

This account consists of:

	2017	2016	2015
Selling	<b>₱11,489,997</b>	₱11,292,096	₱9,888,631
Administrative	<b>6,164,817</b>	5,409,988	5,218,089
	<b>₱17,654,814</b>	₱16,702,084	₱15,106,720

Selling expenses consist of:

	<i>Note</i>	2017	2016	2015
Freight, trucking and handling		<b>₱4,568,381</b>	₱4,364,615	₱3,738,370
Contracted services		<b>2,370,946</b>	2,176,073	1,513,091
Advertising and promotions		<b>1,845,332</b>	2,112,106	1,656,778
Rentals	4, 29	<b>1,317,017</b>	1,145,910	1,348,722
Personnel expenses	23	<b>830,590</b>	844,295	804,344
Depreciation and amortization	22	<b>224,581</b>	170,054	199,051
Others		<b>333,150</b>	479,043	628,275
		<b>₱11,489,997</b>	₱11,292,096	₱9,888,631

Administrative expenses consist of:

	<i>Note</i>	2017	2016	2015
Personnel expenses	23	<b>₱2,352,616</b>	₱2,034,625	₱1,800,687
Contracted services		<b>797,369</b>	746,080	832,912
Rentals	4, 29	<b>796,903</b>	666,633	547,148
Management fees	27	<b>358,765</b>	335,714	422,131
Taxes and licenses		<b>301,742</b>	434,806	487,742
Professional fees		<b>211,106</b>	185,701	187,585
Insurance		<b>180,792</b>	200,764	164,254
Supplies		<b>148,563</b>	144,822	159,229
Depreciation and amortization	22	<b>123,709</b>	202,364	220,819
Repairs and maintenance		<b>120,493</b>	115,148	99,310
Communication, light and water		<b>93,668</b>	82,415	81,786
Travel and transportation		<b>83,546</b>	72,860	81,240
Others		<b>595,545</b>	188,056	133,246
		<b>₱6,164,817</b>	₱5,409,988	₱5,218,089

## 22. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	<b>2017</b>	2016	2015
Cost of sales:				
Biological assets	10	<b>₱2,161,301</b>	₱1,947,215	₱1,769,017
Property, plant and equipment	13	<b>779,173</b>	842,741	737,951
Others		<b>63,511</b>	57,884	56,786
	20	<b>3,003,985</b>	2,847,840	2,563,754
Selling and administrative expenses:				
Property, plant and equipment	13	<b>₱137,971</b>	₱139,506	₱159,302
Others		<b>210,319</b>	232,912	260,568
	21	<b>348,290</b>	372,418	419,870
		<b>₱3,352,275</b>	₱3,220,258	₱2,983,624

“Others” include amortization of containers, computer software and licenses and depreciation of investment property amounting to ₱273.8 million, ₱290.8 million and ₱317.4 million in 2017, 2016 and 2015, respectively.

## 23. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2017</b>	2016	2015
Salaries and allowances		<b>₱2,551,812</b>	₱2,353,313	₱1,894,461
Retirement costs	26	<b>225,414</b>	178,345	182,533
Other employee benefits		<b>1,710,376</b>	1,543,698	1,345,102
		<b>₱4,487,602</b>	₱4,075,356	₱3,422,096

Personnel expenses are distributed as follows:

	<i>Note</i>	<b>2017</b>	2016	2015
Cost of sales	20	<b>₱1,304,396</b>	₱1,196,436	₱817,065
Administrative expenses	21	<b>2,352,616</b>	2,034,625	1,800,687
Selling expenses	21	<b>830,590</b>	844,295	804,344
		<b>₱4,487,602</b>	₱4,075,356	₱3,422,096

## 24. Interest Expense and Other Financing Charges, Interest Income and Other Income (Charges)

These accounts consist of:

### (a) Interest Expense and Other Financing Charges

	<b>2017</b>	2016	2015
Interest expense	<b>₱65,041</b>	₱101,332	₱324,258
Other financing charges	<b>33,382</b>	31,082	65,212
	<b>₱98,423</b>	₱132,414	₱389,470

Amortization of debt issue costs in 2015 included in “Other financing charges” account amounted to ₱8.3 million. Interest expense is broken down as follows:

	<i>Note</i>	<b>2017</b>	2016	2015
Notes payable	15	<b>₱64,978</b>	₱83,166	₱135,456
Current maturities of long-term debt - net of debt issue costs	17	—	8,029	188,802
Others		<b>63</b>	10,137	—
		<b>₱65,041</b>	<b>₱101,332</b>	<b>₱324,258</b>

In December 2015, SMFI fully paid its Philippine peso-denominated corporate notes consisting of ₱800.0 million note with fixed interest rate of 5.4885% and ₱3,700.0 million note with floating interest rate based on 3-month PDST-F plus margin. Proceeds were used by SMFI to fund expansion and investment in new businesses, and for other general corporate purposes.

(b) Interest Income

	<b>2017</b>	2016	2015
Short-term investments	<b>₱88,818</b>	₱110,517	₱164,698
Cash in banks and others	<b>22,510</b>	16,576	16,222
	<b>₱111,328</b>	<b>₱127,093</b>	<b>₱180,920</b>

(c) Other Income (Charges)

	<i>Note</i>	<b>2017</b>	2016	2015
Gain (loss) on derivatives	31	<b>₱25,189</b>	(₱203,394)	(₱122,993)
Foreign exchange gains (losses) - net	30	<b>10,819</b>	20,752	(47,237)
Impairment loss on idle assets	13	—	(109,326)	(253,234)
Others - net		<b>(161,347)</b>	(196,126)	(141,072)
		<b>(₱125,339)</b>	<b>(₱488,094)</b>	<b>(₱564,536)</b>

“Others - net” include casualty loss, loss on retirement of breeding stocks and expenses of closed facilities.

The depreciation of assets recognized as idle amounting to ₱27.6 million, ₱57.4 million and ₱57.9 million in 2017, 2016 and 2015, respectively, is presented as part of “Others - net”.

## 25. Income Taxes

(a) The Group’s deferred tax assets and liabilities as at December 31 arise from the following:

	<b>2017</b>	2016
Unamortized past service cost and reserve for retirement plan	<b>₱387,119</b>	₱278,445
Allowance for impairment losses on receivables and write-down of inventories	<b>202,543</b>	223,610
NOLCO	<b>77,126</b>	104,257
MCIT	<b>5,528</b>	4,666
Unrealized marked-to-market loss	<b>(1,025)</b>	60,196
Others	<b>102,589</b>	180,426
	<b>₱773,880</b>	<b>₱851,600</b>



The above amounts are reported in the Group's consolidated statements of financial position as follows:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Deferred tax assets	<i>4</i>	<b>₱800,736</b>	₱878,299
Deferred tax liabilities		<b>(26,856)</b>	(26,699)
		<b>₱773,880</b>	₱851,600

The movements of deferred tax assets and liabilities are accounted for as follows:

	<b>2017</b>	<b>2016</b>
Balance at beginning of year	<b>₱851,600</b>	₱846,353
Amounts recognized in profit or loss	<b>(154,395)</b>	79,213
Amounts recognized in other comprehensive income	<b>76,720</b>	(74,121)
Cumulative translation adjustment and others	<b>(45)</b>	155
	<b>₱773,880</b>	₱851,600

As at December 31, 2017, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

<b>Year Incurred/Paid</b>	<b>Carryforward Benefits Up To</b>	<b>NOLCO</b>	<b>MCIT</b>
2016	December 31, 2019	₱161,680	₱3,191
2017	December 31, 2020	98,169	2,337
		<b>₱259,849</b>	<b>₱5,528</b>

Temporary differences on the combined carryforward benefits of MCIT and NOLCO amounting to ₱187.3 million and ₱141.3 million as at December 31, 2017 and 2016, respectively, were not recognized. Management believes that it may not be probable that sufficient future taxable profits will be available against which the combined carryforward benefits of MCIT and NOLCO can be utilized.

(b) The components of income tax expense (benefit) are shown below:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Reported in Profit or Loss</b>			
Current:			
Corporate income tax	<b>₱2,641,788</b>	₱2,553,667	₱2,145,923
Final tax on interest and royalty income	<b>115,803</b>	115,005	122,948
	<b>2,757,591</b>	2,668,672	2,268,871
Deferred	<b>154,395</b>	(79,213)	(52,225)
	<b>₱2,911,986</b>	₱2,589,459	₱2,216,646
<b>Reported in Other Comprehensive Income</b>			
Deferred income tax expense (benefit)			
Remeasurement gain (loss) on reserve for retirement plan	<b>(₱76,765)</b>	₱73,982	(₱39,113)
Gain on AFS financial assets	<b>45</b>	139	18
	<b>(₱76,720)</b>	₱74,121	(₱39,095)

- (c) The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Addition to (reduction in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	(0.13)	(0.15)	(0.26)
Others - net	(0.21)	0.38	2.07
Effective income tax rates	29.66%	30.23%	31.81%

## 26. Retirement Plans

Majority of the subsidiaries of the Parent Company have funded, noncontributory, defined benefit retirement plans (collectively, the "Retirement Plans") covering all of their permanent employees. The Retirement Plans of the Group pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as at December 31, 2017. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the Bureau of Internal Revenue as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of SMC and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Balance at beginning of year</b>	<b>₱3,703,002</b>	₱2,562,121	<b>(₱3,778,050)</b>	(₱3,401,918)	<b>(₱5,355)</b>	₱—	<b>(₱80,403)</b>	(₱839,797)
<b>Recognized in profit or loss</b>								
Service costs	—	—	<b>(217,065)</b>	(147,259)	—	—	<b>(217,065)</b>	(147,259)
Interest expense	—	—	<b>(196,728)</b>	(175,769)	—	—	<b>(196,728)</b>	(175,769)
Interest income	<b>188,656</b>	144,683	—	—	<b>(277)</b>	—	<b>188,379</b>	144,683
	<b>188,656</b>	144,683	<b>(413,793)</b>	(323,028)	<b>(277)</b>	—	<b>(225,414)</b>	(178,345)
<b>Recognized in other comprehensive income</b>								
Remeasurements:								
Actuarial gains (losses) arising from:								
Experience adjustments	—	—	<b>(662,173)</b>	(218,459)	—	—	<b>(662,173)</b>	(218,459)
Changes in financial assumptions	—	—	<b>171,054</b>	1,860	—	—	<b>171,054</b>	1,860
Changes in demographics assumptions	—	—	<b>16,107</b>	(7,389)	—	—	<b>16,107</b>	(7,389)
Return on plan assets excluding interest income	<b>212,628</b>	475,609	—	—	—	—	<b>212,628</b>	475,609
Changes in the effect of asset ceiling	—	—	—	—	<b>5,632</b>	(5,355)	<b>5,632</b>	(5,355)
	<b>212,628</b>	475,609	<b>(475,012)</b>	(223,988)	<b>5,632</b>	(5,355)	<b>(256,752)</b>	246,266
<b>Others</b>								
Contributions	<b>53,480</b>	691,851	—	—	—	—	<b>53,480</b>	691,851
Benefits paid	<b>(141,126)</b>	(171,262)	<b>141,838</b>	173,704	—	—	<b>712</b>	2,442
Other adjustments	—	—	<b>615</b>	(2,820)	—	—	<b>615</b>	(2,820)
	<b>(87,646)</b>	520,589	<b>142,453</b>	170,884	—	—	<b>54,807</b>	691,473
<b>Balance at end of year</b>	<b>₱4,016,640</b>	₱3,703,002	<b>(₱4,524,402)</b>	(₱3,778,050)	<b>₱—</b>	(₱5,355)	<b>(₱507,762)</b>	(₱80,403)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to ₱225.4 million, ₱178.3 million and ₱182.5 million in 2017, 2016 and 2015, respectively (Note 23).

As at December 31, 2017, net retirement assets and liabilities included as part of "Other noncurrent assets" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position, amounted to ₱4.8 million and ₱512.6 million, respectively.

As at December 31, 2016, net retirement assets and liabilities included as part of "Other noncurrent assets" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position, amounted to ₱108.2 million and ₱188.6 million, respectively.

The carrying amounts of the Group's retirement fund approximate fair values as at December 31, 2017 and 2016.

The Group's plan assets consist of the following:

	In Percentages	
	2017	2016
Marketable securities	37.5	42.3
Interest in pooled funds:		
Stock trading portfolio	8.8	10.7
Fixed income portfolio	43.2	42.3
Others	10.5	4.7

#### Investments in Marketable Securities

As at December 31, 2017, the plan assets include:

- 5,623,390 common shares, 730,000 Series "2" Subseries "2-B" and 1,333,300 Series "2" Subseries "2-E" preferred shares of SMC with fair market value per share of ₱111.60, ₱76.50 and ₱76.50, respectively;
- 50,000 preferred shares of Petron Corporation with fair market value per share of ₱1,060.00;
- 400,032 common shares of Ginebra San Miguel, Inc. with fair market value per share of ₱26.85;
- 225,110 common shares and 50,000 PFP2 Shares of SMPFC with fair market value per share of ₱529.00 and ₱1,000.00, respectively; and
- 1,278,269 common shares of Top Frontier with fair market value per share of ₱286.00.

As at December 31, 2016, the plan assets include:

- 8,705,540 common shares, 730,000 Series “2” Subseries “2-B” and 1,333,300 Series “2” Subseries “2-E” preferred shares of SMC with fair market value per share of ₱92.30, ₱80.00 and ₱78.20, respectively;
- 50,000 preferred shares of Petron Corporation with fair market value per share of ₱1,045.00;
- 939,832 common shares of Ginebra San Miguel, Inc. with fair market value per share of ₱12.70;
- 225,110 common shares and 50,000 PFP2 Shares of SMPFC with fair market value per share of ₱231.00 and ₱1,028.00, respectively; and
- 1,278,269 common shares of Top Frontier with fair market value per share of ₱262.00.

The fair market value per share of the above shares of stock is determined based on quoted market prices in active markets as at the reporting date (Note 4).

The Group’s Retirement Plans recognized gains on the investment in marketable securities of SMC and its subsidiaries amounting to ₱246.8 million and ₱446.2 million in 2017 and 2016, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to ₱28.8 million and ₱28.8 million in 2017 and 2016, respectively.

#### Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment income and expenses are allocated to the plans based on their pro-rata share in net assets of pooled funds. The Retirement Plans’ interests in the net assets of the pooled funds were 39.7% and 42.9% of fixed income portfolio as at December 31, 2017 and 2016, respectively. The Retirement Plans’ interests in net assets of the pooled funds were 15.0% and 15.8% of stock trading portfolio as at December 31, 2017 and 2016, respectively.

Approximately 7.3% and 6.5% of the Retirement Plans’ investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2017 and 2016, respectively.

Approximately 27.1% and 28.4% of the Retirement Plans’ investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2017 and 2016, respectively.

Others include the Group Retirement Plans' investments in real estate such as memorial lots and foreclosed properties, investments in government securities, cash and cash equivalents and receivables which earn interest.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute ₱276.9 million to the Retirement Plans in 2018.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Rate Risks.* The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

*Longevity and Salary Risks.* The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2017	2016
Discount rate	5.70 to 7.00	4.81 to 8.25
Salary increase rate	7.0 to 8.0	7.0 to 8.0

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 2.8 to 13.8 years and 2.8 to 10.63 years as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	2017		2016	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(₱287,704)	₱331,350	(₱30,614)	₱33,183
Salary increase rate	288,515	(256,489)	30,154	(28,398)
Gold increase rate	607	(547)	148	(225)

## 27. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as at December 31:

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	<b>2017</b> 2016	<b>₱40</b> 40	<b>₱-</b> -	<b>₱147</b> 111	<b>₱-</b> -	On demand; non-interest bearing	Unsecured; no impairment
Intermediate Parent Company	<b>2017</b> 2016	<b>34,989</b> 33,325	<b>655,573</b> 711,289	<b>88,094</b> 36,911	<b>264,302</b> 175,333	On demand; non-interest bearing	Unsecured; no impairment
Entities under Common Control	<b>2017</b> 2016	<b>184,205</b> 202,712	<b>7,118,632</b> 4,966,499	<b>367,669</b> 278,243	<b>1,843,731</b> 1,356,373	On demand; non-interest bearing	Unsecured; no impairment
Associate of Intermediate Parent Company	<b>2017</b> 2016	- -	- -	- -	<b>2,024,500</b> -	Less than 3 months; interest bearing	Unsecured; no impairment
Shareholders in Subsidiaries and its Affiliates	<b>2017</b> 2016	<b>173,549</b> 149,583	<b>492,732</b> 606,078	<b>1,267</b> 8,650	<b>31,353</b> 30,644	On demand; non-interest bearing	Unsecured; no impairment
<b>Total</b>	<b>2017</b>	<b>₱392,783</b>	<b>₱8,266,937</b>	<b>₱457,177</b>	<b>₱4,163,886</b>		
<b>Total</b>	<b>2016</b>	<b>₱385,660</b>	<b>₱6,283,866</b>	<b>₱323,915</b>	<b>₱1,562,350</b>		

Amounts owed by related parties consist mainly of trade and non-trade receivables (Note 8). As at December 31, 2017, amounts owed by related parties amounting to ₱10.2 million is included under "Prepaid expenses and other current assets" account (Note 11). Amounts owed by related parties amounting to ₱61.3 million and ₱8.3 million as at December 31, 2017 and 2016, respectively, are included under "Other noncurrent assets" account in the consolidated statements of financial position.

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

Amounts owed to associate of the intermediate parent company amounting to ₱2,024.5 million as at December 31, 2017 represents interest-bearing loans payable to Bank of Commerce presented as part of "Notes payable" account in the consolidated statements of financial position (Note 15).

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

On December 28, 2004, SMC and Monterey Foods Corporation (Monterey) executed a Trademark Licensing Agreement (Agreement) with PF-Hormel to license the Monterey trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the Monterey trademark. As a result of the merger of Monterey into SMFI, with SMFI as the surviving corporation, all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI per applicable law and following the provision in the Plan of Merger.

The compensation of the key management personnel of the Group, by benefit type, follows:

	2017	2016	2015
Short-term employee benefits	<b>₱170,051</b>	₱130,022	₱128,338
Retirement costs	<b>11,180</b>	7,787	10,810
	<b>₱181,231</b>	₱137,809	₱139,148

## 28. Basic and Diluted Earnings Per Common Share

Basic EPS is computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	<b>₱6,569,279</b>	₱5,682,272	₱4,499,555
Dividends on preferred shares	<b>848,535</b>	848,535	936,401
Net income attributable to equity holders of the Parent Company (a)	<b>₱5,720,744</b>	₱4,833,737	₱3,563,154
Common shares issued and outstanding (in thousands)	<b>166,667</b>	166,667	166,667
Weighted average number of common shares (in thousands) (b)	<b>166,667</b>	166,667	166,667
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>₱34.32</b>	₱29.00	₱21.38

As at December 31, 2017, 2016 and 2015, the Group has no dilutive equity instruments.

## 29. Operating Lease Commitments

### *Group as a Lessee*

The Group entered into various operating lease agreements. These non-cancellable leases will expire in various terms. Some leases provide an option to renew the lease at the end of the lease term and are reviewed to reflect current market rentals.



The minimum future rental payables under these operating leases as at December 31 are as follows:

	2017	2016
Within one year	<b>₱143,242</b>	₱137,669
After one year but not more than five years	<b>372,966</b>	265,422
After five years	<b>1,737,297</b>	1,338,910
	<b>₱2,253,505</b>	₱1,742,001

Rent expense recognized in the consolidated statements of income amounted to ₱2,368.2 million, ₱2,061.1 million and ₱2,093.2 million in 2017, 2016 and 2015, respectively (Notes 4, 20 and 21).

#### *Group as a Lessor*

The Group entered into a lease agreement for the use of its machinery and equipment. The non-cancellable operating lease has a term of three years and includes a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The minimum future rental receivables under the operating lease as at December 31, 2017 within one year, and after one year but not more than five years amounted to ₱22.2 million.

Rent income recognized in the consolidated statements of income amounted to ₱22.2 million in 2017, 2016 and 2015 (Note 4).

### **30. Financial Risk and Capital Management Objectives and Policies**

#### Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, 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 3 to the 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 consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The BOD also constituted the Board Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's enterprise risk management (ERM) system to ensure its functionality and effectiveness. The Board Risk Oversight Committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the BOD of the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Group.

#### Interest Rate Risk

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

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to

their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

As at December 31, 2017 and 2016, the Group has no floating rate borrowings.

#### Foreign Currency Risk

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

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as at December 31 are as follows:

	2017		2016	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	US\$2,112	₱105,452	US\$4,700	₱233,684
Trade and other receivables	3,435	171,510	4,241	210,863
	5,547	276,962	8,941	444,547
<b>Liabilities</b>				
Notes payable	2,957	147,643	3,160	157,115
Trade payables and other current liabilities	14,689	733,422	10,813	537,622
	17,646	881,065	13,973	694,737
Net foreign currency-denominated monetary liabilities	(US\$12,099)	(₱604,103)	(US\$5,032)	(₱250,190)

The Group reported net foreign exchange gains (losses) amounting to ₱10.8 million, ₱20.8 million and (₱47.2 million) in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 24). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2017	49.930
December 31, 2016	49.720
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 December 31, 2017 and 2016.

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

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 year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

#### Commodity Price Risk

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

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

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

### Liquidity Risk

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

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

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

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

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	₱7,044,133	₱7,044,133	₱7,044,133	₱—	₱—	₱—
Trade and other receivables - net	11,572,575	11,572,575	11,572,575	—	—	—
Derivative assets (included under "Prepaid expenses and other current assets" account)	50,274	50,274	50,274	—	—	—
AFS financial assets (included under "Other noncurrent assets" account)	12,224	12,224	—	—	—	12,224
Noncurrent receivables and deposits (included under "Other noncurrent assets" account)	562,916	562,916	—	117,113	180,953	264,850
<b>Financial Liabilities</b>						
Notes payable	8,406,924	8,419,411	8,419,411	—	—	—
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	22,585,244	22,585,244	22,585,244	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account)	49,859	49,859	49,859	—	—	—
Other noncurrent liabilities (excluding operating lease liability, deposit for future stock subscription and retirement liability)	30,053	30,053	—	30,053	—	—
2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
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
<b>Financial Liabilities</b>						
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)	16,756,849	16,756,849	16,756,849	—	—	—
Derivative liabilities (included under "Trade payables and other current liabilities" account)	176,214	176,214	176,214	—	—	—

### Credit Risk

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

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

### Trade and Other Receivables

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

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

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

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

### Investments

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

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents			
(excluding cash on hand)	7	<b>₱7,035,081</b>	₱7,528,756
Trade and other receivables - net	8	<b>11,572,575</b>	11,252,266
Derivative assets	31	<b>50,274</b>	7,062
AFS financial assets	31	<b>12,224</b>	12,016
Noncurrent receivables and deposits	31	<b>562,916</b>	61,547
		<b>₱19,233,070</b>	<b>₱18,861,647</b>

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 and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

#### Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

#### Other Market Price Risk

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

#### Capital Management

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The 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.

### 31. Financial Assets and Financial Liabilities

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

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	₱7,044,133	₱7,044,133	₱7,539,514	₱7,539,514
Trade and other receivables - net	11,572,575	11,572,575	11,252,266	11,252,266
Derivative assets (included under "Prepaid expenses and other current assets" account)	50,274	50,274	7,062	7,062
AFS financial assets (included under "Other noncurrent assets" account)	12,224	12,224	12,016	12,016
Noncurrent receivables and deposits (included under "Other noncurrent assets" account)	562,916	562,916	61,547	61,547
<b>Financial Liabilities</b>				
Notes payable	8,406,924	8,406,924	5,125,851	5,125,851
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	22,585,244	22,585,244	16,756,849	16,756,849
Derivative liabilities (included under "Trade payables and other current liabilities" account)	49,859	49,859	176,214	176,214
Other noncurrent liabilities (excluding operating lease liability, deposit for future stock subscription and retirement liability)	30,053	30,053	—	—

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

*Cash and Cash Equivalents, Trade and Other Receivables, and Noncurrent Receivables and Deposits.* The carrying amounts of cash and cash equivalents, and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, the fair value approximates



the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

*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, Trade Payables and Other Current Liabilities, and Other Noncurrent Liabilities.* The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments. In the case of other noncurrent liabilities, the carrying amount approximates the fair value as at reporting date.

#### Derivative Financial Instruments

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

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

#### Derivative 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 December 31, 2017 and 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 December 31, 2017 and 2016, the total outstanding notional amount of such embedded currency forwards amounted to US\$70.2 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 December 31, 2017 and 2016, the net positive (negative) fair value of these embedded currency forwards amounted to ₱0.4 million and (₱169.2 million), respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to ₱25.2 million, (₱203.4 million) and (₱123.0 million) in 2017, 2016 and 2015, respectively (Note 24).

#### Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2017	2016
Balance at beginning of year	(P169,152)	(P54,006)
Net change in fair value of derivatives not designated as accounting hedges	25,189	(203,394)
	(143,963)	(257,400)
Less fair value of settled instruments	(144,378)	(88,248)
Balance at end of year	P415	(P169,152)

#### 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 (Note 3).

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

2017	Level 1	Level 2	Total
<b>Financial Assets</b>			
Derivative assets	P—	P50,274	P50,274
AFS Financial assets	9,604	2,620	12,224
<b>Financial Liabilities</b>			
Derivative liabilities	—	49,859	49,859
2016	Level 1	Level 2	Total
<b>Financial Assets</b>			
Derivative assets	P—	P7,062	P7,062
AFS Financial assets	10,640	1,376	12,016
<b>Financial Liabilities</b>			
Derivative liabilities	—	176,214	176,214

The Group has no financial instruments valued based on Level 3 as at December 31, 2017 and 2016. In 2017 and 2016, 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.

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### 32. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and those of its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing market prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stocks, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

There were no shares offered under the ESPP in 2017 and 2016.

There were no expenses for share-based payments that were paid and charged by SMC to the Group in 2017, 2016 and 2015.

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### **33. Registration with the Board of Investments (BOI) and the Authority of Freeport Area of Bataan (AFAB)**

Certain expansion projects of the Parent Company's consolidated subsidiaries are registered either with the BOI, as pioneer or non-pioneer status, or with AFAB. As registered enterprises, the consolidated subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives.

#### **SMFI**

SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of the Omnibus Investment Code of 1987 (Executive Order No. 226), the projects are entitled, among others, to the following incentives:

- (a) *New Producer of Hogs*. SMFI's (formerly Monterey Foods Corporation) Sumilao hog project ("Sumilao Hog Project") was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to income tax holiday (ITH) for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

- (b) *New Producer of Animal Feeds (Pellet, Crumble and Mash)*. The Mandaue, Cebu feedmill project ("Cebu Feedmill Project") was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- (c) *New Producer of Animal and Aqua Feeds*. The Sta. Cruz, Davao feedmill project ("Davao Feedmill Project") was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- (d) *New Producer of Animal Feeds (Pellet, Crumble and Mash)*. The San Ildefonso, Bulacan feedmill project ("Bulacan Feedmill Project") was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- (e) *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (“Davao Poultry Project”) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- (f) *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Pagbilao, Quezon poultry project (“Quezon Poultry Project”) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- (g) *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Great Food Solutions project (“Ready-to-Eat Project”) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI’s Bataan feedmill project (“Bataan Feedmill Project”) was registered with the AFAB as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057.

Under the terms of SMFI’s AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

#### GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC’s BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987 (Executive Order No. 226), GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

#### SMMI

SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI’s BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987 (Executive Order No. 226), SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On November 9, 2017, the BOI approved the change in the start date of the ITH entitlement of the flour mill expansion project to December 2018 or actual start of commercial operations, whichever is earlier.

#### PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987 (Executive Order No. 226), PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

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### **34. Other Matters**

#### *(a) Consolidation of SMC's food and beverage businesses under SMPFC*

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 ₱10.00 per share to ₱1.00 per share, and deny pre-emptive rights for issuances or dispositions of all common shares (collectively, the "First Amendments"); (b) upon approval by the SEC of the First Amendments, the increase in SMPFC's authorized capital stock by ₱9,540,000,000.00 divided into 9,540,000,000 common shares with a par value of ₱1.00 per share, and the amendment to the Articles of Incorporation to reflect such increase (the "Increase"); (c) the acquisition of the Exchange Shares from SMC and issuance by 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.

The stockholders of the Parent Company approved the foregoing corporate actions in its special stockholders meeting on January 18, 2018.

#### *(b) Purchase of FMC's manufacturing plant by Magnolia*

On December 15, 2017, Magnolia entered into an Asset Purchase Agreement (the "Agreement") with FMC for the purchase of FMC's parcels of land, buildings and improvements, and machineries and equipment (collectively, the "Purchased Assets") pertaining to the manufacturing plant where Magnolia's *La Pacita* biscuits are being

toll-manufactured. The refundable deposit paid by Magnolia in December 2017 was recognized by Magnolia as part of “Non-trade receivables” as at December 31, 2017.

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

(c) *Toll Agreements*

The significant subsidiaries of the Parent Company are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the “Parties”). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2017, 2016 and 2015 amounted to ₱7,759.4 million, ₱7,309.2 million and ₱6,733.4 million, respectively.

(d) *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor-related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

(e) *Commitments*

The outstanding purchase commitments of the Group as at December 31, 2017 amounted to ₱19,139.7 million, of which ₱5,569.1 million pertains to contractual commitments on capital projects in progress.

(f) *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso were closing rates of ₱49.93 and ₱49.72 in 2017 and 2016, respectively, for consolidated statements of financial position accounts; and average rates of ₱50.40, ₱47.48 and ₱45.50 in 2017, 2016 and 2015, respectively, for income and expense accounts.

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

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**35. Events After the Reporting Date**

- (a) On February 1, 2018, the Parent Company's BOD declared cash dividends to all common shareholders of record as at February 19, 2018 amounting to ₱2.00 per share payable on March 1, 2018. SMPFC's BOD likewise declared on February 1, 2018 cash dividends to all preferred (series 2) shareholders of record as at February 19, 2018 amounting to ₱14.14225 per share payable on March 12, 2018.
- (b) On February 6, 2018, the BOD and shareholders of SMSCCI ratified the increase in SMSCCI's authorized capital stock from ₱500.0 million, consisting of 50,000,000 million common shares at a par value of ₱10.00 per share, to ₱1,000.0 million, consisting of 100,000,000 million common shares at the same par value, as previously approved by the BOD and shareholders of SMSCCI on December 14, 2016.

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE  
PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of the consolidated financial information of San Miguel Pure Foods Company Inc. (SMPFC or the "Company") and its Subsidiaries (collectively referred to as the "Group") in accordance with the applicable financial reporting framework and reports as required by accounting and auditing standards for the Group for the year ended December 31, 2017.

In discharging this responsibility, I hereby declare that (check one (1) ):

✓ I, am the Finance Manager of San Miguel Pure Foods Company Inc.

           I, am the (position) of (name of organization/person) and was contracted to perform this service.

Furthermore, in my compilation services for the preparation of the Group's Consolidated Financial Statements and Notes to Consolidated Financial Statements, I was not assisted by or did not avail of the services of Reyes Tacandong & Co. who is the external auditor who rendered the audit opinion for the Group's Consolidated Financial Statements and Notes to Consolidated Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

SIGNATURE OVER PRINTED NAME:

  
FLORENCE P. PAVON

PROFESSIONAL IDENTIFICATION CARD NO: 0097471

VALID UNTIL: 11/25/2019

ACCREDITATION NUMBER: 2640

VALID UNTIL: 11/25/2020

Signed this 14th day of March 2018



ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES )  
PASIG CITY ) S.S.


Before me, a Notary Public for and in PASIG CITY City this APR 06 2018 day of \_\_\_\_\_ 2018, personally appeared:

<u>Name</u>	<u>Passport No.</u>	<u>Expiry Date/Place Issued</u>
Florence P. Pavon	EC4652723	July 13, 2020 / DFA NCR East

known to me to be the same person who executed the foregoing Certificate on the Compilation Services for the Preparation of San Miguel Pure Foods Company Inc. and Subsidiaries' Consolidated Financial Statements and Notes to the Consolidated Financial Statements consisting of two (2) pages including this page on which this acknowledgment is written and that she acknowledged to me that the same is her free and voluntary act and deed and that of the principals she represent.

IN WITNESS WHEREOF, I have hereto affixed my notarial seal at the date and place first above written.

Doc. No. 145 ;  
Page No. 30 ;  
Book No. N ;  
Series of 2018.

  
**ALEXANDRA VICTORIA G. BENGSON**  
Notary Public for Pasig City  
Commission until 31 December 2018  
22<sup>nd</sup> Floor, JMT Corporate Condominium,  
ADB Ave., Ortigas Center, Pasig City  
APPT No. 62 (2018-2019)/Roll No. 43959  
IBP No. 024948; 1/9/2018; Makati City  
PTR No. 3867080; 1/10/2018; Pasig City  
MCLE Compliance No. V-0020566; 4/20/2016



**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES**

**ANNEX "E-1"**

The Stockholders and the Board of Directors  
San Miguel Pure Foods Company Inc.  
23rd Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Pure Foods Company Inc. and Subsidiaries (the Group) as at and for the year ended December 31, 2017, included in the Form 17-A, and have issued our report thereon dated March 14, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules of Annex 68-E is the responsibility of the Group's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, as amended, and is not a required part of the basic consolidated financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

**HAYDEE M. REYES**

**Partner**

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 6607959

Issued January 3, 2018, Makati City

March 14, 2018  
Makati City, Metro Manila



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**

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SUPPLEMENTARY SCHEDULES  
DECEMBER 31, 2017**

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**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2017**  
(Amounts in Thousands, except Number of Shares Data)

<b>Name of Issuing Entity / Description of Each Issue</b>	<b>Number of shares or Principal Amount of Bonds and Notes</b>	<b>Amount Shown in the Statements of Financial Position</b>	<b>Value Based on Market Quotations at Dec. 31, 2017</b>	<b>Income (Loss) Received and Accrued</b>
Cash and cash equivalents	—	₱7,044,133	₱7,044,133	₱103,293
Trade and other receivables - net	—	11,572,575	11,572,575	654
Derivative assets	—	50,274	50,274	25,189 *
Available-for-sale financial assets	78,160	12,224	12,224	(45)
Noncurrent receivables and deposits - net	—	562,916	562,916	7,381
	<b>78,160</b>	<b>₱19,242,122</b>	<b>₱19,242,122</b>	<b>₱136,472</b>

*\*This represents net marked-to-market losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as at year-end.*

See Notes 24, 30 and 31 of the Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**ATTACHMENT TO SCHEDULE A's AVAILABLE-FOR-SALE FINANCIAL ASSETS**  
**DECEMBER 31, 2017**

(Amounts in Thousands, except Number of Shares Data)

<u>Name of Issuing Entity</u>	<u>No. of Shares or Principal Amount of Bonds and Notes</u>	<u>Valued Based on Market Quotation at December 31, 2017</u>
San Miguel Pure Foods Company Inc.		
Club Filipino	1	P190
Makati Sports Club, Inc.	1	450
Philippine Long Distance Telephone Company	325	480
Valle Verde Country Club, Inc.	1	400
Manila Electric Company	14,895	149
San Miguel Foods, Inc.		
Club Filipino	1	190
Makati Sports Club, Inc.	1	450
Philippine Long Distance Telephone Company	3,928	157
The Manila Southwoods Golf & Country Club, Inc.	1	900
Sta Elena Golf Club	1	3,300
Manila Electric Company	58,999	590
Tagaytay Highland Golf and Country Club	1	550
Royal Tagaytay Country Club	1	60
The Orchard Golf & Country Club	1	90
Magnolia, Inc.		
Alabang Country Club, Inc.	1	4,000
The Purefoods-Hormel Company, Inc.		
Capitol Hills Golf and Country Club, Inc.	1	28
PT San Miguel Pure Foods Indonesia		
Golf Club Bogor Raya	1	240
<b>Total Available-for-Sale Financial Assets</b>	<b>78,160</b>	<b>P12,224</b>

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
(Amounts in Thousands)

<b>NAME OF RELATED PARTY</b>	<b>BEGINNING BALANCE</b>	<b>ADDITIONS/ CUMULATIVE TRANSLATION RESERVE/ RECLASS/OTHERS</b>	<b>AMOUNTS COLLECTED/ CREDIT MEMO</b>	<b>AMOUNTS WRITTEN OFF</b>	<b>TOTAL</b>	<b>CURRENT</b>	<b>NON CURRENT</b>	<b>ENDING BALANCE</b>
San Miguel Pure Foods Company Inc.	₱110,647	₱5,066,684	(₱5,063,744)	–	₱113,587	₱113,587	₱–	₱113,587
San Miguel Foods, Inc. and subsidiary	528,261	7,937,864	(7,696,134)	–	769,991	769,991	–	769,991
San Miguel Mills, Inc. and subsidiaries	193,150	2,239,559	(2,187,947)	–	244,762	244,762	–	244,762
The Purefoods-Hormel Company, Inc.	200,261	1,997,645	(1,921,411)	–	276,495	276,495	–	276,495
Magnolia, Inc. and subsidiaries	207,139	1,757,416	(1,624,885)	–	339,670	339,670	–	339,670
San Miguel Super Coffeemix Co., Inc.	6,686	24,761	(19,188)	–	12,259	12,259	–	12,259
	<b>₱1,246,144</b>	<b>₱19,023,929</b>	<b>(₱18,513,309)</b>	<b>₱–</b>	<b>₱1,756,764</b>	<b>₱1,756,764</b>	<b>₱–</b>	<b>₱1,756,764</b>



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
(Amounts in Thousands)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CUMULATIVE TRANSLATION RESERVE/ RECLASS/OTHERS	AMOUNTS PAID/DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NON CURRENT	ENDING BALANCE
San Miguel Pure Foods Company Inc.	₱3	₱1,250,152	(₱1,250,140)	₱-	₱15	₱15	₱-	₱15
San Miguel Foods, Inc. and subsidiary	512,988	6,602,967	(6,411,064)	-	704,891	704,891	-	704,891
San Miguel Mills, Inc. and subsidiaries	4,752	1,196,074	(1,179,703)	-	21,123	21,123	-	21,123
The Purefoods-Hormel Company, Inc.	481,270	5,256,865	(4,982,632)	-	755,503	755,503	-	755,503
Magnolia, Inc. and subsidiaries	135,453	2,660,565	(2,639,605)	-	156,413	156,413	-	156,413
San Miguel Super Coffeemix Co., Inc.	9,003	118,227	(113,273)	-	13,957	13,957	-	13,957
San Miguel Pure Foods International, Limited and subsidiary	61,390	1,069,674	(1,068,966)	-	62,098	62,098	-	62,098
PT San Miguel Pure Foods Indonesia	39,686	2,705	-	-	42,391	42,391	-	42,391
	<b>₱1,244,545</b>	<b>₱18,157,229</b>	<b>(₱17,645,383)</b>	<b>₱-</b>	<b>₱1,756,391</b>	<b>₱1,756,391</b>	<b>₱-</b>	<b>₱1,756,391</b>

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS**  
**DECEMBER 31, 2017**  
(Amounts in Thousands)

***Part A - Trademarks and Other Intangible Assets***

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Other Changes/ Reclassification/ (Disposal)	Charged to Costs and Expenses	Cumulative Translation Reserve	Ending Balance
<b>Cost:</b>						
Trademarks and brand names	P3,749,485	P26,786	P—	P—	P257	P3,776,528
Computer software and licenses	939,546	24,367	735	—	(29)	964,619
Goodwill	177,029	—	—	—	—	177,029
Formulas and recipes	57,591	—	—	—	—	57,591
Franchise	7,000	—	—	—	—	7,000
	4,930,651	51,153	735	—	228	4,982,767
<b>Accumulated Amortization:</b>						
Computer software and licenses	784,719	81,857	—	—	(28)	866,548
<b>Net Book Value</b>	<b>P4,145,932</b>	<b>(P30,704)</b>	<b>P735</b>	<b>P—</b>	<b>P256</b>	<b>P4,116,219</b>

See Notes 4 and 14 of the Notes to the Consolidated Financial Statements.



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS**  
**DECEMBER 31, 2017**  
(Amounts in Thousands)

**Part B - Other Noncurrent Assets**

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Other Changes/ Reclassification/ (Disposal)	Charged to Costs and Expenses	Cumulative Translation Reserve/ Fair Value Reserve	Ending Balance
Noncurrent receivables and deposits	P61,547	P516,989	(P15,620)	P—	P—	P562,916
Noncurrent prepaid input tax	89,387	187,687	(5,436)	—	—	271,638
Pallets and crates	194,496	227,097	(638)	(191,329)	—	229,626
Idle assets	99,208	—	—	(35,558)	193	63,843
Noncurrent prepaid rent	7,444	36,564	(7,444)	—	—	36,564
Available-for-sale financial assets	12,016	—	(26)	—	234	12,224
Others - net	140,614	3,621	(112,173)	—	—	32,062
	<b>P604,712</b>	<b>P971,958</b>	<b>(P141,337)</b>	<b>(P226,887)</b>	<b>P427</b>	<b>P1,208,873</b>

See Notes 4, 13, 30 and 31 of the Notes to the Consolidated Financial Statements.

**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2017**

Description	Number of Shares Authorized	Number of Shares Issued	Treasury Shares	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options	Number Of Shares Held		
						Related Party	Directors and Officers	Others
Common Shares	206,000,000	170,874,854	4,207,758	166,667,096	—	142,279,267	9	24,387,820
Preferred Shares	40,000,000	30,000,000	15,000,000	15,000,000	—	—	—	15,000,000
Total	<b>246,000,000</b>	<b>200,874,854</b>	<b>19,207,758</b>	<b>181,667,096</b>	<b>—</b>	<b>142,279,267</b>	<b>9</b>	<b>39,387,820</b>

See Note 18 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES  
AGING OF ACCOUNTS RECEIVABLE  
AS AT DECEMBER 31, 2017

I. AGING OF ACCOUNTS RECEIVABLE

Type of Receivable:	Total	Current	1-30 days	31-60 days	61-90 days	Over 90 days
A. Trade	₱11,059,881,699.45	₱6,834,779,540.27	₱2,442,741,837.65	₱385,910,109.28	₱160,493,717.47	₱1,235,956,494.78
Less: Allowance	480,996,097.75	-	-	-	-	480,996,097.75
Net Trade Receivable	10,578,885,601.70	6,834,779,540.27	2,442,741,837.65	385,910,109.28	160,493,717.47	754,960,397.03
B. Non-Trade	1,258,912,046.72	377,174,895.65	159,470,060.45	86,158,167.60	30,523,837.16	605,585,085.86
Less: Allowance	265,222,329.79	-	-	-	-	265,222,329.79
Net Non-Trade Receivable	993,689,716.93	377,174,895.65	159,470,060.45	86,158,167.60	30,523,837.16	340,362,756.07
Net Receivables	₱11,572,575,318.63	₱7,211,954,435.92	₱2,602,211,898.10	₱472,068,276.88	₱191,017,554.63	₱1,095,323,153.10

II. Accounts Receivable Description

Type of Accounts Receivable:	Nature/Description	Collection Period
a. Trade Receivables	Sales of fresh and processed meats, poultry, feeds, flour, breadfill, dairy-based products, desserts, flour mixes, specialty oils, snacks and condiments, and importation and marketing of coffee and coffee-related products	
	San Miguel Foods, Inc. and subsidiary	42 days
	San Miguel Mills, Inc. and subsidiaries	24 days
	Magnolia, Inc. and subsidiaries	62 days
	PT San Miguel Pure Foods Indonesia	42 days
	San Miguel Pure Foods International Limited and subsidiary	36 days
	San Miguel Super Coffeemix Co., Inc.	72 days
	The Purefoods-Hormel Company, Inc.	59 days
b. Non-Trade Receivables	Consists mainly of:	
	1. Advances to contract growers and breeders	Upon harvest of marketable broilers and hogs/
	2. Receivables from truckers and toll partners	Upon harvest of eggs and fully grown parent stocks
	3. Insurance Claims	Upon demand or not over 60 days
		30 days from the date of offer settlement

III. Normal Operating Cycle

San Miguel Foods, Inc. and subsidiary	121 days
San Miguel Mills, Inc. and subsidiaries	139 days
Magnolia, Inc. and subsidiaries	134 days
PT San Miguel Pure Foods Indonesia	88 days
San Miguel Pure Foods International Limited and subsidiary	75 days
San Miguel Super Coffeemix Co., Inc.	175 days
The Purefoods-Hormel Company, Inc.	147 days



**ANNEX "E-2"**

**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION**

The Stockholders and the Board of Directors  
San Miguel Pure Foods Company Inc.  
23rd Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Pure Foods Company Inc. (the Company), a subsidiary of San Miguel Corporation, as at and for the year ended December 31, 2017, and have issued our report thereon dated March 14, 2018. Our audits were made for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The accompanying supplementary schedule of retained earnings available for dividend declaration for the year ended December 31, 2017 is the responsibility of the Company's management. This schedule is presented for purposes of complying with the Securities Regulation Code Rule 68, as amended, and is not part of the basic separate financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic separate financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic separate financial statements taken as a whole.

**REYES TACANDONG & Co.**

**HAYDEE M. REYES**

**Partner**

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 6607959

Issued January 3, 2018, Makati City

March 14, 2018  
Makati City, Metro Manila





**SAN MIGUEL PURE FOODS COMPANY INC.**  
**(A Subsidiary of San Miguel Corporation)**  
**23<sup>rd</sup> Floor, The JMT Corporate Condominium, ADB Avenue**  
**Ortigas Center, Pasig City**

**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(Amounts in Thousands)

<b>Retained Earnings, beginning</b>		<b>₱1,972,922</b>
<b>Adjustments</b>		
Accumulated impairment loss on investment in a subsidiary	₱842,151	
Treasury stock	(182,094)	
Deferred tax asset	(154)	<b>659,903</b>
<b>Retained Earnings, beginning as adjusted</b>		<b>2,632,825</b>
<b>Net Income based on the face of financial statements</b>	<b>3,268,766</b>	
<b>Non-actual loss</b> - impairment loss on investment in a subsidiary	100,000	
<b>Non-actual gain</b> - unrealized foreign exchange gain	(3,890)	
<b>Net Income Actual/Realized</b>		<b>3,364,876</b>
Dividend declarations during the year		<b>(1,848,537)</b>
<b>Retained Earnings, ending as adjusted</b>		<b>₱4,149,164</b>



**ANNEX "E-3"**

**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
San Miguel Pure Foods Company Inc.  
23<sup>rd</sup> Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Pure Foods Company Inc. and Subsidiaries (the Group) as at and for the year ended December 31, 2017, and have issued our report thereon dated March 14, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of Philippine Financial Reporting Standards and Interpretations and the Group Structure are the responsibility of the Group's management. The supplementary schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and are not part of the basic consolidated financial statements. The supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

**HAYDEE M. REYES**

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No: 0663-AR-3 Group A

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BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

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Issued January 3, 2018, Makati City

March 14, 2018  
Makati City, Metro Manila





**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**23<sup>rd</sup> Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND**  
**INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as at December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRS Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards (PFRS)</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> <b>Effective as at December 31, 2017</b>		Adopted	Not Adopted	Not Applicable
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in Methods for Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Servicing Contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Applicability of Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRS 8: Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 2011): Investment Entities			✓



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as at December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 10: Transition Guidance			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
<b>Philippine Accounting Standards (PAS)</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 to 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 to 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> <b>Effective as at December 31, 2017</b>		Adopted	Not Adopted	Not Applicable
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 to 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Amendments to PAS 16: Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount Rate: Regional Market Issue			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> <b>Effective as at December 31, 2017</b>		Adopted	Not Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Related Party Disclosures - Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of Information elsewhere in the Interim Financial Report	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> Effective as at December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Investment Property - Classifying the Interrelationship between PFRS 3, Business Combination and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	✓		
PAS 41	Agriculture	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> <b>Effective as at December 31, 2017</b>		Adopted	Not Adopted	Not Applicable
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓

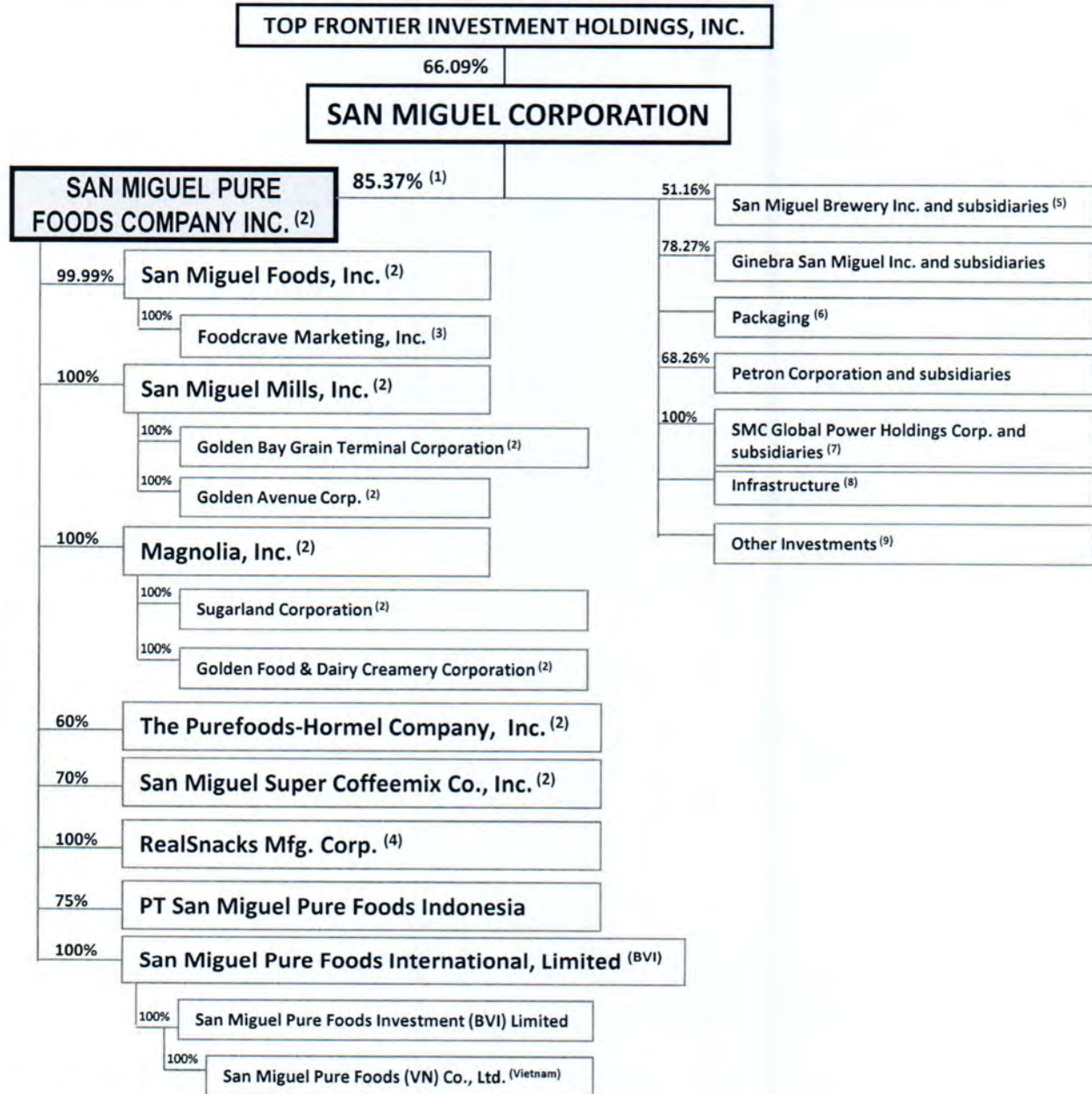
<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as at December 31, 2017</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>PHILIPPINE INTERPRETATIONS COMMITTEE QUESTIONS AND ANSWERS (PIC Q&amp;A)</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02 - Amended	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01 - Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01 - Amended	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02 - Amended	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current /noncurrent classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03 - Amended	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS</b> <b>Effective as at December 31, 2017</b>		Adopted	Not Adopted	Not Applicable
PIC Q&A 2011-05 - Amended	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✓		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01 - Amended	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-03 - Revised	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 – Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-04	Application of PFRS 15 “Revenue from Contracts with Customers” on Sale of Residential Properties under Pre-completion Contracts			✓

# SAN MIGUEL PURE FOODS COMPANY INC.

## GROUP STRUCTURE \*



(1) Excluding issued and outstanding series "2" preferred shares

(2) Incorporated in the Philippines

(3) Incorporated in the Philippines in July 2016 and started commercial operations in March 2017

(4) Incorporated in the Philippines in April 2004 and has not yet started commercial operations

(5) Group includes San Miguel Brewing International Ltd. and subsidiaries (100%)

(6) Packaging business includes San Miguel Yamamura Packaging Corporation and subsidiaries (65%), San Miguel Yamamura Packaging International Ltd. and subsidiaries (65%), San Miguel Yamamura Asia Corporation (60%), Mindanao Corrugated Fibreboard, Inc. (100%) and Northern Cement Corporation (35%) <sup>(A)</sup>

(7) Group includes San Miguel Energy Corporation and subsidiaries (100%), South Premiere Power Corp. (100%), Strategic Power Devt. Corp. (100%), SMC Consolidated Power Corporation (100%), San Miguel Consolidated Power Corporation (100%), PowerOne Ventures Energy Inc. (100%), Angat Hydropower Corporation (60%) <sup>(B)</sup>, KWPP Holdings Corporation (60%) <sup>(B)</sup>, and Mariveles Power Generation Corporation (49%) <sup>(A)</sup>

(8) Infrastructure business includes Atlantic Aurum Investments BV and subsidiaries (95%), Private Infra Dev Corporation (70.11%), Trans Aire Development Holdings Corp. (99.86%), Vertex Tollways Dev't. Inc. (100%), Universal LRT Corporation (BVI) Limited (100%), Cypress Tree Capital Investments, Inc. and subsidiaries (100%) and Manila North Harbour Port, Inc. (43.33%)

(9) Other Investments include San Miguel Properties, Inc. (99.94%), Bank of Commerce (39.93%) <sup>(A)</sup>, SMC Shipping and Lighterage Corporation and subsidiaries (70%) and SMC Asia Car Distributors Corp. (65%)

\* The group structure includes the ultimate parent company, Top Frontier Investment Holdings, Inc., the intermediate parent company, San Miguel Corporation and its major subsidiaries, associates and joint ventures, and San Miguel Pure Foods Company Inc. and subsidiaries.

Note: <sup>(A)</sup> Associate

<sup>(B)</sup> Joint Venture





**ANNEX "E-4"**

**REPORT OF INDEPENDENT AUDITORS  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
San Miguel Pure Foods Company Inc.  
23<sup>rd</sup> Floor, The JMT Corporate Condominium  
ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Pure Foods Company Inc. and Subsidiaries (the Group) as at and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated March 14, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of Financial Soundness Indicators is the responsibility of the Group's management. The supplementary schedule is presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic consolidated financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

**HAYDEE M. REYES**

**Partner**

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

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Valid until August 30, 2020

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Valid until January 13, 2020

PTR No. 6607959

Issued January 3, 2018, Makati City

March 14, 2018  
Makati City, Metro Manila



**SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES**  
**23<sup>rd</sup> Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City**  
**FINANCIAL SOUNDNESS INDICATORS**

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

KPI	December 2017	December 2016
Liquidity:		
Current Ratio	1.36	1.73
Solvency:		
Debt to Equity Ratio	0.70	0.55
Asset to Equity Ratio	1.70	1.55
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	19.78%	19.65%
Interest Rate Coverage Ratio	100.75	64.57

KPI	For the year ended December 2017	For the year ended December 2016
Operating Efficiency:		
Volume Growth	3.92%	5.36%
Revenue Growth	5.25%	4.42%
Operating Margin	8.45%	8.00%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
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	$\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

\* Excluding cash dividends paid to preferred shareholders

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



**ANNEX “F”**

**San Miguel Pure Foods Company Inc.  
Reported SEC Form 17-C for 2017**

Date Reported	Subject																
January 24, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that the Company’s Corporate Affairs Group and Office of the Corporate Secretary conducted an orientation briefing for its new director, Mr. Rolando L. Macasaet, on January 23, 2017. The briefing included an overview of the Company’s corporate structure, its Articles of Incorporation and By-laws, the Company’s businesses, financial performance, core purpose, core value, vision and strategic thrusts, plans, key management, and other relevant matters necessary and desirable to enable the new director to contribute effectively in Board meetings and to faithfully fulfill his duties and responsibilities to the Company. Copies of the Company’s Manual on Corporate Governance, Code of Ethics, Dividend Policy and Policies on Securities Dealing, Conflict of Interest, Whistleblowing, and Solicitation or Acceptance of Gifts were also provided to the new director, for his guidance.</p>																
January 25, 2017	<p><u>Item 4. Resignation, Removal or Appointment/Election of Directors or Officers</u></p> <p>San Miguel Pure Foods Company Inc. received late this morning the resignation letter of Justice Edgardo P. Cruz. Mr. Cruz resigned as Independent Director and Member of the Audit Committee of the Company effective January 31, 2017 due to health reasons</p>																
February 3, 2017	<p><u>Item 9. Other Events</u></p> <p>At the meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on February 2, 2017, the Board approved the declaration of cash dividends to shareholders of the Company as follows:</p> <p style="text-align: center;"><u>Preferred Shares (PFP2)</u></p> <table data-bbox="486 1422 1045 1556"> <tr> <td>Amount:</td><td>P14.14225 per share</td></tr> <tr> <td>Record Date:</td><td>February 17, 2017</td></tr> <tr> <td>Closing of Books:</td><td>February 18 to 23, 2017</td></tr> <tr> <td>Payment Date:</td><td>March 13, 2017</td></tr> </table> <p style="text-align: center;"><u>Common Shares</u></p> <table data-bbox="486 1646 1045 1780"> <tr> <td>Amount:</td><td>P1.50 per share</td></tr> <tr> <td>Record Date:</td><td>February 17, 2017</td></tr> <tr> <td>Closing of Books:</td><td>February 18 to 23, 2017</td></tr> <tr> <td>Payment Date:</td><td>March 1, 2017</td></tr> </table>	Amount:	P14.14225 per share	Record Date:	February 17, 2017	Closing of Books:	February 18 to 23, 2017	Payment Date:	March 13, 2017	Amount:	P1.50 per share	Record Date:	February 17, 2017	Closing of Books:	February 18 to 23, 2017	Payment Date:	March 1, 2017
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	The Board also reviewed and approved the Core Purpose, Core Value, Vision and Strategic Thrusts of the Company.
March 17, 2017	<p><u>Item 9. Other Events</u></p> <p>At the meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on March 16, 2017:</p> <p>A. The Board elected retired Gen. Ricardo C. Marquez as Independent Director of the Company and member of the Audit Committee, effective March 16, 2017, vice Justice Edgardo P. Cruz who resigned from the Board and the Audit Committee effective January 31, 2017, as previously disclosed. Gen. Marquez holds one common share of the outstanding capital stock of the Company.</p> <p>Gen. Marquez, Filipino, 56, is currently a Director of the Public Safety Mutual Benefit Fund, Inc. (since July 2015). He was previously Chairman of the Board of said corporation (July 2015 to June 2016). Gen. Marquez held several positions in the Philippine National Police (PNP). In the last five years, he was Chief of the PNP (from July 2015 to June 2016), Director of Operations (from December 2013 to July 2015), Regional Director, Police Regional Office 1 (from January to December 2013), Deputy Director for Operations (from March 2012 to January 2013), and Executive Officer, Directorate for Investigation and Detective Management (from August 2010 to March 2012). Gen. Marquez holds a Bachelor of Science Degree from the Philippine Military Academy, and a Masters in Management Degree from Philippine Christian University.</p> <p>B. Upon the endorsement of the Audit Committee, the Board approved the Internal Audit Group Charter for the San Miguel Food Group, comprised of the Company and its subsidiaries.</p> <p>C. The Board declared that the Annual Stockholders’ Meeting of the Company will be held on May 12, 2017, Friday, 2:00 p.m., at the Executive Dining Room, 2<sup>nd</sup> Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.</p> <p>In this connection:</p> <p>(i) The record date for the stockholders entitled to vote at the said meeting is April 17, 2017;</p> <p>(ii) The stock and transfer books will be closed from April 18 to 21, 2017;</p> <p>(iii) The deadline for submission of proxies is on April 27, 2017; and</p> <p>(iv) The validation of proxies will be on May 5, 2017.</p> <p>D. The Agenda of the Annual Stockholders’ Meeting shall be as follows:</p> <ol style="list-style-type: none"> <li>1. Certification of Notice and Quorum</li> <li>2. Approval of the Minutes of the Annual Stockholders’ Meeting held on May 13, 2016</li> <li>3. Presentation of the Annual Report</li> <li>4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers</li> </ol>

	<p>5. Appointment of External Auditors</p> <p>6. Election of the Board of Directors</p> <p>7. Other Matters</p> <p>8. Adjournment</p>								
March 17, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached press release, entitled: <b>“SMPFC 2016 revenues reach P111.6B, net income climbs to P6B”</b>.</p>								
April 05, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that the Company’s Corporate Affairs Group and Office of the Corporate Secretary conducted an orientation briefing for its new director, Gen. Ricardo C. Marquez, on April 4, 2017. The briefing included an overview of the Company’s corporate structure, its Articles of Incorporation and By-laws, the Company’s businesses, financial performance, core purpose, core value, vision and strategic thrusts, plans, key management, and other relevant matters necessary and desirable to enable the new director to contribute effectively in Board meetings and to faithfully fulfill his duties and responsibilities to the Company. Copies of the Company’s Manual on Corporate Governance, Code of Ethics, Dividend Policy and Policies on Securities Dealing, Conflict of Interest, Whistleblowing, and Solicitation or Acceptance of Gifts were also provided to the new director, for his guidance.</p>								
May 10, 2017	<p><u>Item 9. Other Events</u></p> <p>At the meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on May 9, 2017:</p> <p>A. Upon the endorsement of the Audit Committee, the Board approved the new Manual on Corporate Governance of the Company (the “CG Manual”). The CG Manual is aligned with the Code of Corporate Governance for Publicly-Listed Companies issued by the Commission. The CG Manual includes the creation of a Related Party Transactions Committee, a Board Risk Oversight Committee and a Corporate Governance Committee, in addition to the current Audit Committee. The new Committees shall be formally constituted on May 12, 2017, which is the date of the organizational Board meeting during which the members of the Committees will be appointed. The Company will be submitting the CG Manual to the Commission in accordance with SEC Memorandum Circular No. 19, Series of 2016.</p> <p>B. Upon the endorsement of the Audit Committee, the Board also approved the Personal Data Privacy Policy of the Company and its subsidiaries, in compliance with the Data Privacy Act and its Implementing Rules and Regulations.</p> <p>C. The Board approved the declaration of cash dividends to shareholders of the Company as follows:</p> <p><u>Preferred Series 2 (PFP2) Shares</u></p> <table> <tr> <td>Amount:</td><td>P14.14225 per share</td></tr> <tr> <td>Record Date:</td><td>May 24, 2017</td></tr> <tr> <td>Closing of Books:</td><td>May 25 to 30, 2017</td></tr> <tr> <td>Payment Date:</td><td>June 13, 2017</td></tr> </table>	Amount:	P14.14225 per share	Record Date:	May 24, 2017	Closing of Books:	May 25 to 30, 2017	Payment Date:	June 13, 2017
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Closing of Books:	May 25 to 30, 2017								
Payment Date:	June 13, 2017								

	<p style="text-align: center;"><u>Common (PF) Shares</u></p> <p>Amount: P1.50 per share Record Date: May 24, 2017 Closing of Books: May 25 to 30, 2017 Payment Date: June 8, 2017</p> <p>D. The Board deliberated on the results of the assessment of the members of the Audit Committee, of the performance of the Committee, for the year ended December 31, 2016.</p> <p>The Board further deliberated on the results of the assessment of the directors of their individual performance, as well as that of the collective Board, the Board Committees, the President of the Company, and the Board’s relationship with Management, for the year ended December 31, 2016.</p>																																										
May 10, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached press release, entitled: “<b>SMPFC’s net income up 20% to P1.5B</b>”.</p>																																										
May 15, 2017	<p><u>Item 9. Other Events</u></p> <p>Please be informed that at the Annual Meeting of Shareholders (the “ASM”) and Organizational Meeting of the Board of Directors (the “Board”) of San Miguel Pure Foods Company Inc. (the “Corporation”) both held on May 12, 2017:</p> <p>1. The following directors were duly elected at the ASM, with the respective number of shares held by each in the Corporation:</p> <table><tr><th>Name of Owner</th><th>Title of Class</th><th>Amount and Nature of Ownership</th><th>Total No. of Shares</th></tr><tr><td>Eduardo M. Cojuangco, Jr.</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Ramon S. Ang</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td rowspan="2">Francisco S. Alejo III</td><td>Common</td><td>1 (Direct) 43,000 (Beneficial)</td><td rowspan="2">53,001</td></tr><tr><td>Preferred Series 2</td><td>10,000 (Beneficial)</td></tr><tr><td>Menardo R. Jimenez</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Rolando L. Macasaet</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Mario C. Garcia</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Carmelo L. Santiago (Independent)</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Minita V. Chico-Nazario (Independent)</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr><tr><td>Ricardo C. Marquez (Independent)</td><td>Common</td><td>1 (Direct)</td><td>1</td></tr></table>	Name of Owner	Title of Class	Amount and Nature of Ownership	Total No. of Shares	Eduardo M. Cojuangco, Jr.	Common	1 (Direct)	1	Ramon S. Ang	Common	1 (Direct)	1	Francisco S. Alejo III	Common	1 (Direct) 43,000 (Beneficial)	53,001	Preferred Series 2	10,000 (Beneficial)	Menardo R. Jimenez	Common	1 (Direct)	1	Rolando L. Macasaet	Common	1 (Direct)	1	Mario C. Garcia	Common	1 (Direct)	1	Carmelo L. Santiago (Independent)	Common	1 (Direct)	1	Minita V. Chico-Nazario (Independent)	Common	1 (Direct)	1	Ricardo C. Marquez (Independent)	Common	1 (Direct)	1
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Ricardo C. Marquez (Independent)	Common	1 (Direct)	1																																								

2. The following key officers were duly elected at the Organizational Meeting of the Board:

Eduardo M. Cojuangco, Jr.	-	Chairman
Ramon S. Ang	-	Vice Chairman
Francisco S. Alejo III	-	President
Zenaida M. Postrado	-	Treasurer and Chief Finance Officer
Rita Imelda B. Palabyab	-	Head, Agro-Industrial Cluster President, San Miguel Foods, Inc.
Raul B. Nazareno	-	Head, Branded Business Cluster President, The Purefoods-Hormel Company, Inc. and Magnolia Inc.
Florentino C. Policarpio	-	Head, Milling Cluster President, San Miguel Mills, Inc.
Oscar R. Sañez	-	Vice President, Corporate Affairs Group
Rodolfo M. Abaya	-	Vice President & Division Human Resources Head
Jennifer T. Tan	-	Vice President & Division Procurement Manager
Helene Z. Pontejos	-	Vice President & General Manager, San Miguel Foods - Great Food Solutions
Alexandra B. Trillana	-	General Counsel, Corporate Secretary and Compliance Officer
Ma. Celeste L. Ramos	-	Assistant Corporate Secretary
Ophelia L. Fernandez	-	Internal Audit Group Head

Of such officers, the shareholdings of Messrs. Cojuangco, Ang and Alejo in the Corporation are mentioned above. The shareholdings of the other named officers are as below provided:

Name of Owner	Title of Class	Amount and Nature of Ownership	Total No. of Shares
Zenaida M. Postrado	Preferred Series 2	10,000 (Beneficial)	10,000
Rita Imelda B. Palabyab	Preferred Series 2	2,000 (Beneficial)	2,000
Raul B. Nazareno	N/A	N/A	0
Florentino C. Policarpio	N/A	N/A	0
Oscar R. Sañez	Preferred Series 2	4,000 (Beneficial)	4,000
Rodolfo M. Abaya	N/A	N/A	0
Jennifer T. Tan	Preferred Series 2	1,500 (Beneficial)	1,500
Helene Z. Pontejos	Preferred Series 2	2,000 (Beneficial)	2,000
Alexandra B. Trillana	Preferred Series 2	1,000 (Beneficial)	1,000
Ma. Celeste L. Ramos	Preferred Series 2	300 (Beneficial)	300
Ophelia L. Fernandez	N/A	N/A	0

In the same meeting, the following were elected to the Board Committees of the Corporation:

**EXECUTIVE COMMITTEE**

Eduardo M. Cojuangco, Jr.	-	Chairman
Ramon S. Ang		
Francisco S. Alejo III		
Minita V. Chico-Nazario		

**AUDIT COMMITTEE**

Carmelo L. Santiago	-	Chairman
Minita V. Chico-Nazario		
Ricardo C. Marquez		
Menardo R. Jimenez		
Ferdinand K. Constantino	-	Non Director Member

**RELATED PARTY TRANSACTIONS COMMITTEE**

Minita V. Chico-Nazario	-	Chairman
Carmelo L. Santiago		
Ricardo C. Marquez		
Menardo R. Jimenez		
Ferdinand K. Constantino	-	Non Director Member

**BOARD RISK OVERSIGHT COMMITTEE**

Ricardo C. Marquez	-	Chairman
Carmelo L. Santiago		
Menardo R. Jimenez		

**CORPORATE GOVERNANCE COMMITTEE**

Minita V. Chico-Nazario	-	Chairman
Carmelo L. Santiago		
Ricardo C. Marquez		

Also in the same meeting, Mr. Carmelo L. Santiago was appointed as the Lead Independent Director of the Company, in compliance with the new Code of Corporate Governance for Publicly-Listed Companies.

Further, the Board approved the depository banks, signing authorities and limits for corporate transactions of the Corporation, subject to amendment as the need arises, for approval at subsequent Board meetings.



August 10, 2017	<p><u>Item 9. Other Events</u></p> <p>At the meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on August 9, 2017:</p> <p>1. The Board approved the declaration of cash dividends to shareholders of the Company as follows:</p> <p style="padding-left: 40px;"><u>Preferred Shares (PFP2)</u></p> <p style="padding-left: 80px;">Amount: P14.14225 per share Record Date: August 24, 2017 Closing of Books: August 25 to August 31, 2017 Payment Date: September 12, 2017</p> <p style="padding-left: 40px;"><u>Common Shares (PF)</u></p> <p style="padding-left: 80px;">Amount: P1.50 per share Record Date: August 24, 2017 Closing of Books: August 25 to August 31, 2017 Payment Date: September 7, 2017</p> <p>2. Upon the endorsement of the Audit Committee, the Board approved the submission to the SEC and PSE of the Quarterly Report of the Company (or SEC Form 17-Q), including financial statements as at and for the period ended June 30, 2017.</p> <p>3. Upon the endorsement of the Audit Committee, the Board approved the Audit Plan as at and for the year ending December 31, 2017, for the Company and its subsidiaries, including engagement deliverables, key risk areas and audit considerations, as well as agreed audit timetable, as presented by external auditor Reyes Tacandong &amp; Co. to the Audit Committee. Further, the Board authorized management to negotiate and agree on the audit fees payable to the external auditor based on the approved Audit Plan.</p> <p>4. The Board approved the separate Charters of the Corporate Governance Committee, Related Party Transactions Committee and Board Risk Oversight Committee, upon the endorsement of the respective Committees. Each Charter sets out the role, authority, duties and responsibilities of the Board Committee to which it applies, and the procedures which shall guide the conduct of the Committee’s functions.</p>
August 10, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached press release, entitled: <b>“San Miguel Pure Foods’ first half net income surges by 26% to P3.1B”</b>.</p>
September 18, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that, in compliance with the Code of Corporate Governance for Publicly Listed Companies and the new Manual on Corporate Governance of San Miguel Pure Foods Company Inc. (the</p>

	<p>“Company”), the following directors and key officers of the Company have attended a corporate governance training seminar conducted by SGV &amp; Co. at the 2<sup>nd</sup> Floor, Executive Dining Room, San Miguel Head Office Complex, Mandaluyong City, on the date indicated below:</p> <table> <tr> <th data-bbox="603 416 715 448"><u>Directors</u></th><th data-bbox="1043 416 1212 448"><u>Date Attended</u></th></tr> <tr> <td data-bbox="421 481 766 512">1. Mr. Menardo R. Jimenez</td><td data-bbox="1011 481 1244 512">September 15, 2017</td></tr> <tr> <td data-bbox="421 515 715 546">2. Mr. Mario C. Garcia</td><td data-bbox="1011 515 1244 546">September 15, 2017</td></tr> <tr> <td data-bbox="421 548 823 580">3. Mr. Mr. Rolando L. Macasaet</td><td data-bbox="1011 548 1244 580">September 15, 2017</td></tr> <tr> <td data-bbox="421 582 762 613">4. Mr. Ricardo C. Marquez</td><td data-bbox="1011 582 1244 613">September 15, 2017</td></tr> <tr> <td data-bbox="421 616 900 741">5. Mr. Ferdinand K. Constantino (Non-Director Member of the Audit and Related Party Transactions Committees of the Company)</td><td data-bbox="1011 616 1244 647">September 15, 2017</td></tr> </table> <table> <tr> <th data-bbox="584 777 734 808"><u>Key Officers</u></th><th data-bbox="1037 777 1206 808"><u>Date Attended</u></th></tr> <tr> <td data-bbox="421 842 794 873">1. Atty. Alexandra B. Trillana</td><td data-bbox="1011 842 1244 873">September 15, 2017</td></tr> <tr> <td data-bbox="421 875 798 907">2. Atty. Ma. Celeste L. Ramos</td><td data-bbox="1011 875 1244 907">September 15, 2017</td></tr> <tr> <td data-bbox="421 909 702 940">3. Mr. Oscar R. Sañez</td><td data-bbox="1011 909 1244 940">September 15, 2017</td></tr> <tr> <td data-bbox="421 943 769 974">4. Ms. Zenaida M. Postrado</td><td data-bbox="1011 943 1244 974">September 15, 2017</td></tr> <tr> <td data-bbox="421 976 807 1008">5. Ms. Rita Imelda B. Palabyab</td><td data-bbox="1011 976 1244 1008">September 15, 2017</td></tr> <tr> <td data-bbox="421 1010 705 1041">6. Ms. Jennifer T. Tan</td><td data-bbox="1011 1010 1244 1041">September 15, 2017</td></tr> <tr> <td data-bbox="421 1043 778 1075">7. Ms. Ophelia L. Fernandez</td><td data-bbox="1011 1043 1244 1075">September 15, 2017</td></tr> </table> <p>Attached are the copies of their Certificates of Attendance.</p>	<u>Directors</u>	<u>Date Attended</u>	1. Mr. Menardo R. Jimenez	September 15, 2017	2. Mr. Mario C. Garcia	September 15, 2017	3. Mr. Mr. Rolando L. Macasaet	September 15, 2017	4. Mr. Ricardo C. Marquez	September 15, 2017	5. Mr. Ferdinand K. Constantino (Non-Director Member of the Audit and Related Party Transactions Committees of the Company)	September 15, 2017	<u>Key Officers</u>	<u>Date Attended</u>	1. Atty. Alexandra B. Trillana	September 15, 2017	2. Atty. Ma. Celeste L. Ramos	September 15, 2017	3. Mr. Oscar R. Sañez	September 15, 2017	4. Ms. Zenaida M. Postrado	September 15, 2017	5. Ms. Rita Imelda B. Palabyab	September 15, 2017	6. Ms. Jennifer T. Tan	September 15, 2017	7. Ms. Ophelia L. Fernandez	September 15, 2017
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November 6, 2017	<p><u>Item 9. Other Events</u></p> <p>At the special meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on November 3, 2017, the Board approved the following corporate actions:</p> <ol style="list-style-type: none"> <li>1. The following amendments to the Company’s Articles of Incorporation: <ol style="list-style-type: none"> <li>a. The change/expansion of the primary purpose of the Company in the Second Article to include its engagement in the alcoholic and non-alcoholic beverage business;</li> <li>b. The change of the corporate name to “San Miguel Food and Beverage, Inc.” (from “San Miguel Pure Foods Company Inc.”), including the corresponding amendment to the First Article;</li> <li>c. The reduction of par value of common shares in the Seventh Article to One Peso (P1.00) each share (from Ten Pesos (P10.00) each share), and in this regard, management was authorized to approve the mechanics for the implementation of the reduction in par value of the common shares; and</li> </ol> </li> </ol>																												

	<p>d. The denial of pre-emptive rights for issuances or dispositions of all common shares in the Seventh Article.</p> <p>2. After the approval of the Securities and Exchange Commission (SEC) of the above-mentioned amendments, the increase in the authorized capital stock of the Company by Nine Billion Five Hundred Forty Million Pesos (P9,540,000,000.00) divided into Nine Billion Five Hundred Forty Million (9,540,000,000) common shares with a par value of One Peso (P1.00) per share, from Two Billion Four Hundred Sixty Million Pesos (P2,460,000,000.00) divided into Two Billion Sixty Million (2,060,000,000) 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, and the amendment of the Seventh Article of the Articles of Incorporation to reflect such increase.</p> <p>As a result of 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.</p> <p>From the increase in authorized capital stock, approximately 44% thereof or 4,242,549,130 common shares with a par value of P1.00 per share will be subscribed by San Miguel Corporation (SMC).</p> <p>3. In view of the favorable endorsements of the Audit Committee and the Related Party Transactions Committee, the acquisition by the Company of SMC's 7,859,319,270 common shares in San Miguel Brewery Inc. (SMB) and 216,972,000 common shares in Ginebra San Miguel Inc. (GSMI), with the combined value amounting to P336,349,294,992.60, and the issuance by the Company of 4,242,549,130 common shares to SMC (as subscribed by SMC from the foregoing increase in the Company's authorized capital stock) in consideration for those shares (the "Share Swap Transaction"), including but not limited to the following:</p> <p>a. The confirmation of appointment of Standard Chartered Bank as Transaction Advisor and ING Bank, N.V. as Independent Financial Advisor for the Share Swap Transaction;</p> <p>b. The authority of management to determine the final issue price of the Company's common shares and acquisition price of SMB and GSMI common shares for the Share Swap Transaction, taking into consideration the independent valuation analysis of ING Bank, N.V.;</p> <p>c. The application with the Bureau of Internal Revenue for a tax-free ruling in relation to the Share Swap Transaction and the appointment of the Chief Finance Officer and Treasurer to act for the Company in this regard;</p> <p>d. The advice to the Philippine Competition Commission on the non-application of the requirement to obtain consent to proceed with the Share Swap Transaction;</p>
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	<p>e. The request to the SEC and Philippine Stock Exchange (PSE) for a deferment of the Company's compliance with the minimum public ownership requirement as a result of the Share Swap Transaction;</p> <p>f. The tender offer for SMB and GSMI common shares held by minority shareholders in connection with the Share Swap Transaction, if required under and pursuant to the provisions of applicable law and regulations.</p> <p>4. The listing on the PSE of the additional issued common shares resulting from the reduction of par value of shares and the common shares to be issued to SMC under the Share Swap Transaction.</p> <p>5. The holding of a Special Stockholders' Meeting for the further approval of the amendments to the Articles of Incorporation and the Share Swap Transaction, on January 18, 2018, Thursday, 2:00 p.m., at the Executive Dining Room, 2<sup>nd</sup> Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.</p> <p>In this connection:</p> <p>a. The record date for the stockholders entitled to vote at the said meeting is November 24, 2017;</p> <p>b. The stock and transfer books will be closed from November 25 to 29, 2017;</p> <p>c. The deadline for submission of proxies is on January 4, 2018; and</p> <p>d. The validation of proxies will be on January 11, 2018.</p>
November 6, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached. (Approved PSE Disclosure re Voluntary Trading Halt)</p>
November 10, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached press release, entitled: <b>“San Miguel Pure Foods’ net income up to 26% to P4.7B”</b>.</p>
November 10, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached. (Approved PSE Disclosure re Comprehensive Corporate Disclosure on the Issuance of Shares)</p>
November 10, 2017	<p><u>Item 9. Other Events</u></p> <p>Please see attached. (Approved PSE Disclosure re Change in Par Value)</p>

November 10,  
2017

Item 9. Other Events

At the meeting of the Board of Directors of San Miguel Pure Foods Company Inc. (respectively, the “Board” and the “Company”) held on November 9, 2017:

Item 4. Resignation, Removal or Election of Registrant's Directors or Officers

- a. The Board promoted Ms. Ophelia L. Fernandez, Internal Audit Group Head, to Assistant Vice President and Internal Audit Group Head. She does not hold any shares of stock of the Company.

Ms. Fernandez has been the Internal Audit Group Head of the San Miguel Food Group comprised of San Miguel Pure Foods Company Inc. and its subsidiaries, since 2015. She was previously Internal Audit Director of Liberty Telecoms Holdings Inc. (2010-2015). Ms. Fernandez holds a Bachelor of Science Degree in Business Administration, Major in Accounting from Aquinas University, Legaspi City.

Item 9. Other Events

- a. Upon the endorsement of the Audit Committee, the Board approved the submission to the SEC and PSE of the Quarterly Report of the Company (or SEC Form 17-Q), including financial statements as at and for the period ended September 30, 2017.
- b. Upon the endorsement of the Audit Committee, the Board approved the Internal Audit Plan as at and for the year ending December 31, 2018, for the Company and its subsidiaries, as presented by the Internal Audit Group to the Audit Committee.
- c. The Board approved the declaration of cash dividends to shareholders of the Company as follows:

Preferred Shares Series 2 (PFP2)

Amount:	P14.14225 per share
Record Date:	November 28, 2017
Closing of Books:	November 29 to December 1, 2017
Payment Date:	December 12, 2017

Common Shares (PF)

Amount:	P1.50 per share
Record Date:	November 28, 2017
Closing of Books:	November 29 to December 1, 2017
Payment Date:	December 8, 2017

- d. The Compliance Officer distributed the attached Internal Self-Rating Form to the Directors, together with the policy and procedures, including criteria, for the annual performance assessment of the Board, intended to appraise and improve the performance of the Board of Directors as a governing unit, the individual directors, the different Board Committees, as well as the President, in accordance with the Company’s Manual on Corporate Governance.

	<p>Earlier during the Audit Committee meeting, the attached Self-Assessment Worksheet was circulated for the members of the Audit Committee to accomplish annually pursuant to its Charter, as required by the SEC.</p> <p>The directors were requested to return the accomplished forms to the Office of the Compliance Officer on or before December 8, 2017.</p> <p>e. The Board set the dates for the 2018 Board of Directors' and Committee meetings, as well as the Annual Stockholders' Meeting (ASM) of the Company. The ASM is scheduled on May 11, 2018, the second Friday of May, in accordance with the Company's By-laws. Stockholders who wish to propose the inclusion of additional items to the usual Agenda of the ASM and/or nominate candidates to the Board, may submit their proposals not later than January 31, 2018 to the Corporate Secretary at the 22<sup>nd</sup> Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, for the consideration of the Chairman and the appropriate Board Committees.</p>
November 10, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that, in compliance with the Code of Corporate Governance for Publicly Listed Companies and the new Manual on Corporate Governance of San Miguel Pure Foods Company Inc. (the "Company"), the following key officers of the Company attended a corporate governance training seminar conducted by SGV &amp; Co. at the 2<sup>nd</sup> Floor, Executive Dining Room, San Miguel Head Office Complex, Mandaluyong City, on November 3, 2017.</p> <p style="text-align: center;"><u>Key Officers</u></p> <ol style="list-style-type: none"> <li>1. Mr. Raul B. Nazareno</li> <li>2. Mr. Florentino C. Policarpio</li> <li>3. Mr. Rodolfo M. Abaya</li> <li>4. Ms. Helene Z. Pontejos</li> </ol> <p>Attached are the copies of their Certificates of Attendance.</p>
November 21, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that, in compliance with the Code of Corporate Governance for Publicly Listed Companies and the new Manual on Corporate Governance of San Miguel Pure Foods Company Inc. (the "Company"), Mr. Eduardo Cojuangco, Jr., Chairman and Director and Ms. Minita V. Chico-Nazario, Independent Director of the Company have attended the corporate governance training seminar conducted by Risk, Opportunities, Assessment and Management, Inc. (ROAM) at the 2<sup>nd</sup> Floor, Executive Dining Room, San Miguel Head Office Complex, Mandaluyong City, on November 20, 2017.</p> <p>Attached are the copies of their Certificates of Attendance.</p>

December 12, 2017	<p><u>Item 9. Other Events</u></p> <p>We advise that, in compliance with the Code of Corporate Governance for Publicly Listed Companies and the new Manual on Corporate Governance of San Miguel Pure Foods Company Inc., the following directors have attended the corporate governance training seminar conducted by Risk, Opportunities, Assessment and Management, Inc. (ROAM) at the 2<sup>nd</sup> Floor, Executive Dining Room, San Miguel Head Office Complex, Mandaluyong City, on the date indicated below.</p> <table data-bbox="336 546 1396 712"> <thead> <tr> <th></th><th><u>Date Attended</u></th></tr> </thead> <tbody> <tr> <td>1. Mr. Ramon S. Ang – Vice Chairman and Director</td><td>December 11, 2017</td></tr> <tr> <td>2. Mr. Francisco S. Alejo III – President and Director</td><td>December 11, 2017</td></tr> <tr> <td>3. Mr. Carmelo L. Santiago – Independent Director</td><td>December 11, 2017</td></tr> </tbody> </table> <p>Attached are the copies of their Certificates of Attendance.</p>		<u>Date Attended</u>	1. Mr. Ramon S. Ang – Vice Chairman and Director	December 11, 2017	2. Mr. Francisco S. Alejo III – President and Director	December 11, 2017	3. Mr. Carmelo L. Santiago – Independent Director	December 11, 2017
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