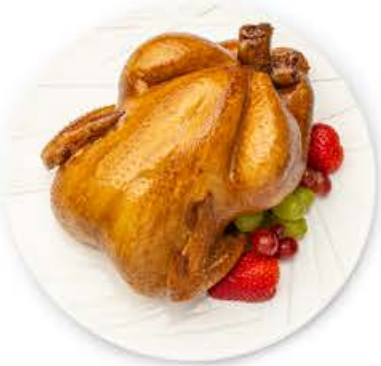
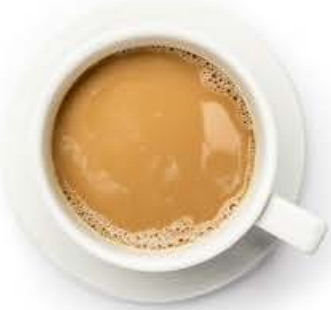
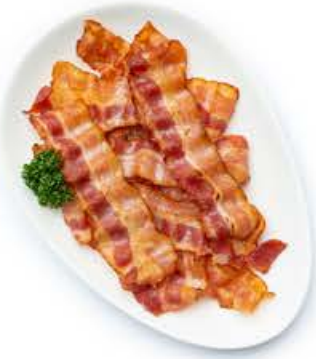
SAN MIGUEL
FOOD AND BEVERAGE, INC.

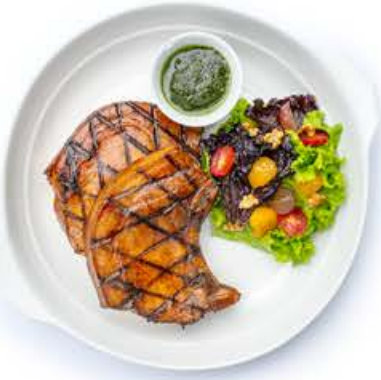






ANNUAL REPORT 2018

EAT

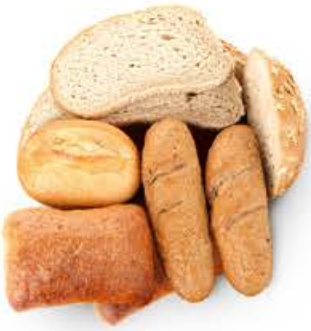


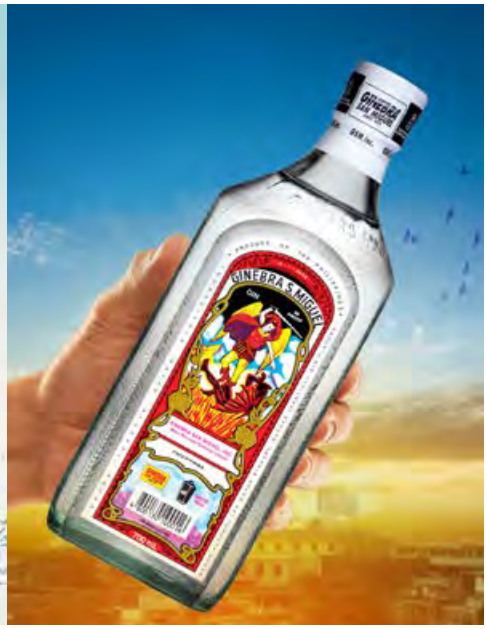
SAN MIGUEL FOOD AND BEVERAGE, INC.

DRINK

CELEBRATING LIFE

LIVE





Annual Report 2018

Contents

Introducing San Miguel Food and Beverage, Inc.

San Miguel Food and Beverage, Inc. (SMFB) is a leading food and beverage company in the Philippines. The brands under which we produce, market, and sell our products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include San Miguel Pale Pilsen, San Mig Light, and Red Horse for beer; Ginebra San Miguel for gin; Magnolia for chicken and dairy products; Monterey for fresh and marinated meats; Purefoods for refrigerated, prepared, processed, and canned meats; Star and Dari Creme for margarine; and B-MEG for animal feeds.

We have three primary operating divisions—beer and non-alcoholic beverages (NAB), spirits, and food. The Beer and NAB Division, through San Miguel Brewery Inc., and Spirits Division, through Ginebra San Miguel Inc., comprise our beverage business. On the other hand, our Food Division, San Miguel Pure Foods, is operated through a number of key subsidiaries such as San Miguel Foods, Inc., Magnolia Inc., and The Purefoods-Hormel Company, Inc. We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to over 60 markets worldwide.

SMFB is a subsidiary of San Miguel Corporation (SMC), one of the largest and most diversified conglomerates in the Philippines. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, and investments in car distributorship and banking services. SMFB is a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefitting from, as well as contributing to, the development and economic progress of the nation.

SMFB is listed on the Philippine Stock Exchange, Inc. under the ticker symbol "FB".

Our Core Value

MALASAKIT
It is in this spirit that we will look after the welfare and interests of our stakeholders.

We will delight our **customers** with products and services of uncompromising quality, great taste and value, and are easily within their reach.

We will create value and provide fair returns for **shareholders'** investments.

We will work hand-in-hand with our **suppliers and other business partners**, helping them grow with us and assuring them of reasonable returns.

We will develop and motivate our **employees** to become best-in-class through cognitive and affective programs, competitive compensation and benefits, and diverse career growth opportunities.

We will improve the quality of life in the **communities** where we operate.

Eduardo M. Cojuangco, Jr.
Chairman

Ramon S. Ang
Vice Chairman, President,
and Chief Executive Officer

MESSAGE TO STOCKHOLDERS

On behalf of the Board of Directors of San Miguel Food and Beverage, Inc. (SMFB), we are pleased to present to you our Annual Report for 2018.

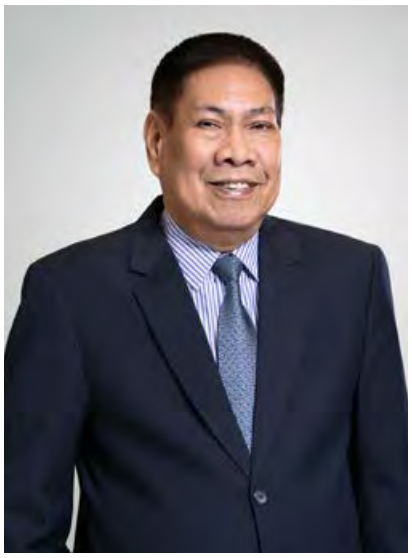
Our first year as SMFB was a period of transition for each of our operating businesses—San Miguel Brewery Inc., San Miguel Pure Foods, and Ginebra San Miguel Inc.

Those familiar with the transformation of our parent, San Miguel Corporation (SMC), might recognize in SMFB, the original core San Miguel business—a quality food and beverage company and owner of iconic brands, many of which have become household favorites for generations. In fact, we may be the only company that has its brands present on every table in every home in the Philippines.

By consolidating all three businesses under one umbrella company, we broaden our category reach to capitalize on synergies that will only serve to strengthen our business, particularly as the competitive environment for food and beverage companies continues to be tough and inflationary pressures remain a concern.

Today, SMFB is positioned for continued growth and shareholder value creation.

Following this restructuring, we conducted a successful follow-on offering in November 2018 and raised a total of P34.1 billion amid bearish market conditions. The landmark transaction was regarded as the largest fully-marketed offering in the Philippines.



Roberto N. Huang
Chief Operating Officer - Beer

Francisco S. Alejo III
Chief Operating Officer - Food

Emmanuel B. Macalalag
Chief Operating Officer - Spirits

Today, SMFB is positioned for continued growth and shareholder value creation.

From an offering price of P85.00 per share, our share price continued to trend positively given the strong performance of our company and its growth prospects. On April 22, 2019, our share price hit P107.00, which equates to a capitalization of P624.0 billion.

We are also pleased to report that SMFB sustained a strong operational and financial performance despite the challenging macroeconomic environment.

Each of our businesses performed strongly, driving consolidated revenues up 14% to P286.4 billion. Consolidated operating income and net income grew by 8% to P46.0 billion and P30.5 billion, respectively.

As one company, we are leveraging on our combined strength, scale, and capabilities to make the most of the growth opportunities that we are seeing in our primary markets. With an extensive and efficient distribution network, as well as a financial profile that includes combined total assets of P238.5 billion, we have transformed into a substantially stronger, world-class company capable of delivering strong and stable growth for the long term.

P286.4 BILLION in consolidated revenues in 2018

P46.0 BILLION in consolidated income from operations in 2018

P30.5 BILLION in consolidated net income from operations in 2018

SMFB has certain capabilities that differentiate us from other food and beverage companies:

- We have a comprehensive product portfolio of category-leading powerhouse brands that fulfills a broad range of consumer needs—we quench thirst, provide refreshment and give nourishment. Our brands are integrated into the everyday lives of consumers. Our unique insight and familiarity with what the Filipino consumer wants help us come up with exciting product innovations and promotions that serve to further drive loyalty and demand for our brands.

- We have the capability to service a broad spectrum of needs of consumers, both in the Philippines and overseas, and manufacture a diverse range of products in multiple formats.

- Our facilities are among the most modern in the world, highly automated and efficient. Our operations are tightly integrated across the value chain for profitability and efficiency.

- We are investing in new strategically-located facilities to address robust demand. This also allows us to deliver our products to our consumers fresh and at a lower cost. For our beer business, we completed an additional bottling line in Sta. Rosa, Laguna in 2018 and with the brewing facilities already started in 2019, this will be a full-fledged brewery by 2020. We are also building a new brewery in Tagoloan, Misamis Oriental. For our food business, we are building new facilities for poultry and fresh meats processing, feed mills, flour milling, and increasing capacity for our prepared and packaged food segment for value-added meats, dairy, spreads, and biscuits.

- We manage an extensive distribution and logistics network that is unparalleled in the Philippines. Our products reach customers throughout the archipelago through over 400,000 beer outlets, 140,000 spirits outlets, and 130,000 points of sale for our food products. We will continue to leverage on this network moving forward.

- Finally, we are a subsidiary of SMC, one of the largest conglomerates in the Philippines. SMC's presence in power, infrastructure, fuel and oils, and packaging, among others, creates opportunities for synergies across multiple industries.

Moving forward, we are confident that the benefits of our strategies, scale, and structure—advantages that resulted in success for us in the past—will serve us well in the coming years.

Even as we work to become sharper at identifying consumer needs and more agile at taking advantage of emerging growth opportunities, we remain strongly committed to enhancing sustainability in our businesses, particularly in the areas of corporate governance and environmental stewardship.

Today, SMFB is the largest and most formidable food and beverage company in the Philippines, uniquely positioned to capture the opportunities afforded by our growing economy.

400,000
BEER OUTLETS

130,000
FOOD POINTS OF SALE

140,000
SPIRITS OUTLETS

SMFB may be the newest company in the San Miguel Group, but our businesses, being the oldest core businesses of SMC, have had significant experience in integrating sustainability practices in their operations, working to uplift lives in our communities, and protecting the environment.

We continue to support our parent company's water sustainability initiative—to cut non-product water use by 50% by 2025. We have significantly contributed to this goal, and will continue to do so in the coming years, given the scale of our operations. We will implement more comprehensive and integrated sustainability programs that will address not just water consumption but also energy efficiency and waste management.

Today, SMFB is the largest and most formidable food and beverage company in the Philippines, uniquely positioned to capture the opportunities afforded by our growing economy.

With the support of our stakeholders, business partners, and consumers, and the unwavering dedication of our employees, we are ready to take on the challenges that lie ahead.

We look forward to driving continued growth, further strengthening our reputation, and living out our core purpose of celebrating life with our consumers in every occasion.

Celebrating Life

San Miguel Food and Beverage, Inc. has been an integral part of the Filipino lifestyle for more than a century. We have been and continue to be present in the everyday and life events of Filipinos.

Our brands are top-of-mind for the Filipino consumer. Moving forward, our vision is "Celebrating Life" with our consumers at every occasion.

Our Brands

We have a powerful portfolio of iconic and trusted brands that resonate deeply with our consumers. Our rich history and track record show that we have built the hard-earned trust of our consumers over many years of consistent product delivery while maintaining relevance by rejuvenating and consistently evolving brands.

BEER

San Miguel PALE PILSEN

RED HORSE BEER EXTRA STRONG

San Mig LIGHT

San Miguel Flavored Beer

GOLD EAGLE BEER

FOOD

B-MEG

Magnolia

MONTEREY

PUREFOODS

ANIMAL HEALTH CARE

JellYace

La Pacita

Treats

SPIRITS

GINEBRA S. MIGUEL

G.S.M. BLUE

GINEBRA SAN MIGUEL Premium GIN

VINO KULAFU

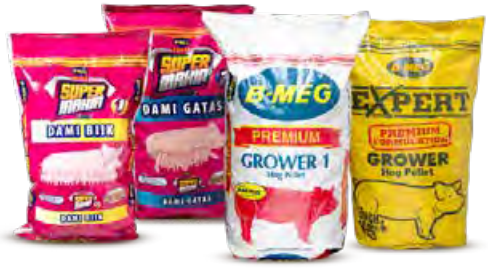
PRIMERA LIGHT Brandy

OUR PRODUCTS

BEER

INTERNATIONAL BEER OPERATIONS

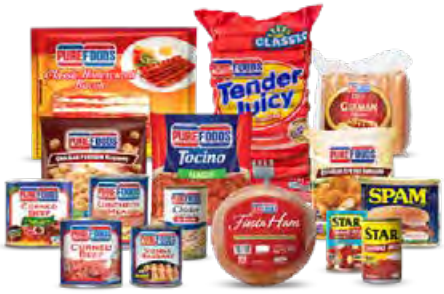
ANIMAL NUTRITION AND HEALTH



FLOUR MILLING

PROTEIN

PREPARED AND PACKAGED FOOD
Refrigerated and Canned Meats



INTERNATIONAL FOOD OPERATIONS

PREPARED AND PACKAGED FOOD
Dairy, Spreads, Biscuits, and Coffee

SPIRITS

FINANCIAL HIGHLIGHTS

Amount in P million, except per share data	2018	2017
Financial Results		
Revenues	286,378	251,589
Income from Operations	45,950	42,401
Net Income	30,533	28,226
Attributable to:		
Equity holders of the Parent Company	18,245	17,305
Non-controlling interests	12,288	10,921
Financial Position		
Total Assets	238,504	205,103
Total Liabilities	108,389	90,482
Total Equity	130,115	114,621
Data per Common Share*		
Earnings per share	2.94	2.78
Book value per share	12.28	10.78
Financial Ratios		
Current Ratio	1.28	1.69
Debt-to-Equity Ratio	0.83	0.79

** Based on the number of common shares issued and outstanding at the end of each year*

FINANCIAL **REVIEW**

Consolidated Financial Performance

San Miguel Food and Beverage, Inc. (SMFB) delivered another solid performance for the year despite the backdrop of economic and market uncertainty, particularly in the fourth quarter of the year.

Consolidated sales in 2018 amounted to P286.4 billion, 14% higher than the previous year on the back of double-digit growth in revenues across all segments. Consolidated income from operations likewise grew by 8% to P46.0 billion.

Sales

Sales for the company in 2018 saw the Beer and NAB and Food segments taking up a large percentage of the total at 45% and 46%, respectively.

The Beer and NAB segment's revenues increased by 14% as domestic sales volume grew by 11%. Growth was mainly driven by the implementation of fresh and engaging consumption-generating campaigns, aggressive defense programs, and improved sales and distribution channels.

The Food segment, likewise, saw revenues grow by 13% given higher sales volumes on core products and price increases.

Meanwhile, sales in the Spirits segment grew by 19%. Growth is attributed to a 13% increase in sales volumes of its core products Ginebra San Miguel and Vino Kulafu.

Income from Operations and Net Income

The 8% increase in income from operations to P46.0 billion was mainly due to the rise in sales volumes across the group, coupled with higher selling prices on certain products. The Beer segment contributed a significant share of the total at 77% while the Food and Spirits segments provided 19% and 4%, respectively.

The Food segment faced pressures on prices of key raw materials, as well as expenses related to expansion initiatives to improve product presence. On the beverages side, there were increases in excise taxes on beer and spirits products. The Beer segment also incurred increases in certain expenses such as distribution costs and advertising and promotions, among others.

Nonetheless, on a consolidated basis, the company's operating income margin remained stable at 16%.

Consolidated net income amounted to P30.5 billion or approximately 8% higher than the previous year, of which P18.2 billion is attributable to equity holders of the parent company and P12.3 billion to non-controlling interests. The company's net income margin also remained stable at 11%.

Consolidated Financial Position

Consolidated total assets as of December 31, 2018 amounted to P238.5 billion, 16% higher than the prior year due to the increase in plant, property and equipment and inventories.

The following are the significant changes in the consolidated financial position:

- Increase in inventories due to purchases of finished goods, raw materials, and containers to meet the expected higher demand for the company's goods.

- Increase in other current assets, specifically the current portion of biological assets, which pertain to growing broilers, hogs, and hatching eggs.

- Increase in plant, property and equipment mainly due to expansion projects of the Food segment for its feed and flour mills and hotdog plant. The Beer segment's expansion projects on its domestic operations also contributed to the increase.

- Increase in noncurrent assets mainly due to the Beer and NAB segment's purchase of additional containers in support of its growth and expansion initiatives.

Consolidated total liabilities as of December 31, 2018 amounted to P108.4 billion, 20% higher than the prior year mainly due to the availment of additional short-term borrowings by the Food segment to finance its expansion projects.

The increase in the current portion of long-term debt and the drop in the long-term debt pertain to the Beer and NAB segment's Series C and Series E fixed rate bonds totaling P12.8 billion, maturing in April 2019, that were reclassified to current maturities of long-term debt.

Consolidated total equity attributable to equity holders of the parent company as of December 31, 2018 amounted to P87.6 billion, P8.9 billion higher than the previous year. This was primarily due to the net income attributable to the equity holders of the parent company amounting to P18.2 billion, net of dividends declared attributable to the equity holders of the parent company of P9.4 billion during the period. Consolidated non-controlling interests also increased.

The company's current ratio was at 1.28 and 1.69 as of December 2018 and 2017, respectively. The lower ratio was mainly due to the increase in the current portion of long-term debt of the Beer segment given the reclassification of its fixed rate bonds from noncurrent portion of long-term debt.

Total debt-to-equity ratio was 0.83 and 0.79 as of December 31, 2018 and 2017, respectively, mainly due to the increase in notes payable availed by the Food segment.

Consolidated Cash Flow

SMFB ended with cash and cash equivalents amounting to approximately P39.4 billion as of December 31, 2018 versus an ending balance of P35.5 billion in December 31, 2017.

The company was able to generate P36.8 billion from its operating activities in 2018 given its strong operations. This was then used to fund the company's uses of cash in its investing and financing activities.

Investing activities in 2018 included those related to the build-up in plant, property and equipment, biological assets, containers, bottles, and shells for the various expansion and investment projects of the Food and Beer segments. Financing activities, on the other hand, was composed of the payment of dividends declared by the company totaling P15.9 billion during the year plus additions to interest-bearing liabilities.

BUSINESS REVIEW

SAN MIGUEL BREWERY INC.

14%↑
CONSOLIDATED REVENUES

13%↑
CONSOLIDATED INCOME FROM OPERATIONS

15%↑
CONSOLIDATED NET INCOME

San Miguel Brewery Inc. (SMB) registered consolidated revenues of P129.2 billion in 2018, up 14% from the prior year. Fresh and engaging campaigns aimed at generating loyalty and growing the consumer base, aggressive defense programs, better sales and distribution execution, and a favorable operating environment all contributed to SMB's record-breaking year.

Consolidated operating income and net income amounted to P35.3 billion and P23.8 billion, respectively.

SMB Domestic Operations

SMB's domestic operations continued to post double-digit growth as consumption across the country remained strong with San Miguel Pale Pilsen, Red Horse Beer, San Mig Light, and San Miguel Flavored Beer as SMB's top-selling brands.

Operating income of the domestic operations amounted to P33.6 billion, 13% higher than 2017. Net income increased by 16% to P22.8 billion.

Brand awareness campaigns were employed to help bolster growth in 2018. Likewise, SMB introduced initiatives focused on improving efficiencies, ensuring availability of products in outlets, enhancing inventory management and delivery schedules, and deploying trade collaterals.

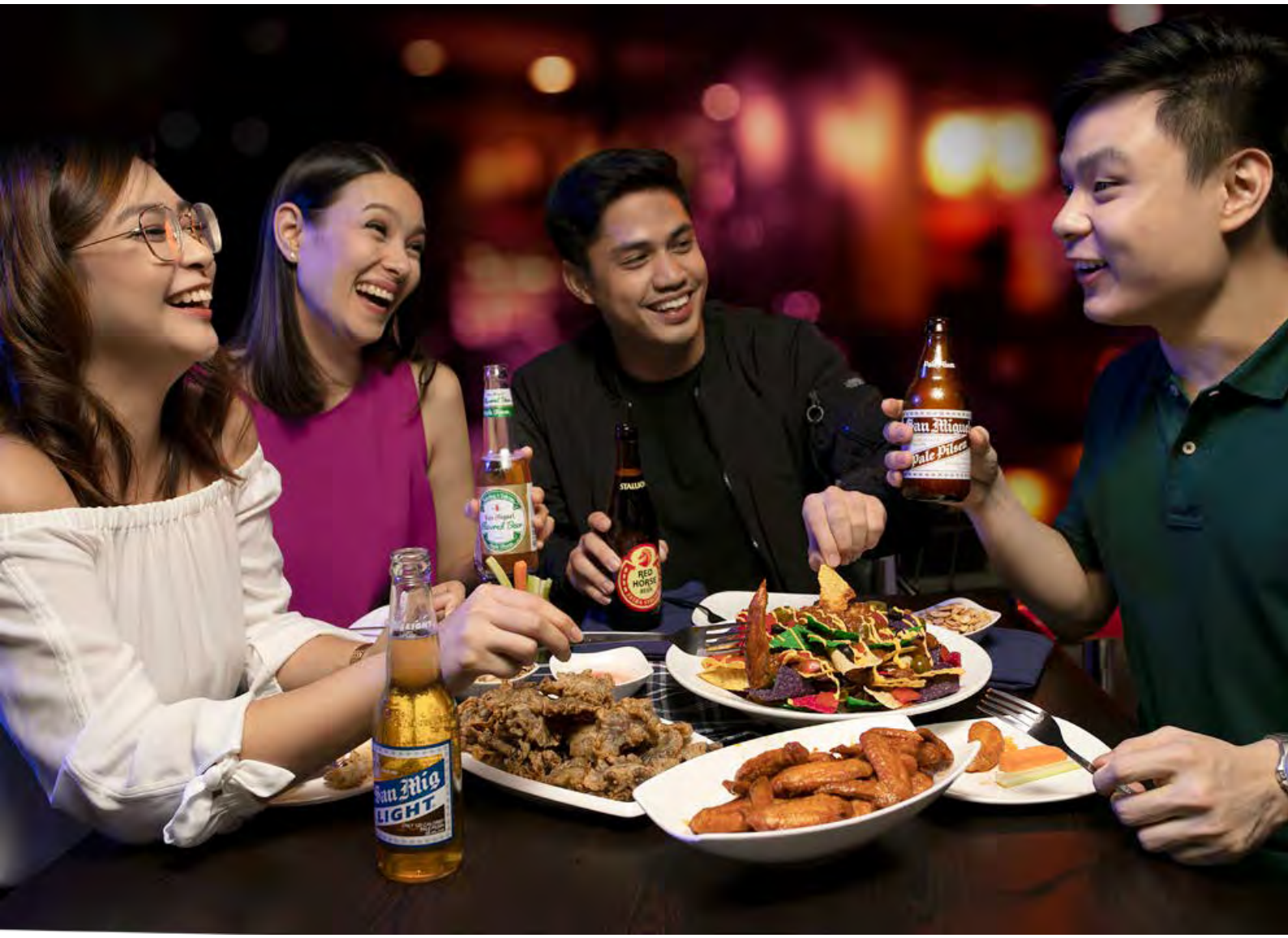
With existing domestic facilities running at nearly full capacity, SMB is constructing two new breweries that will add four million hectoliters to its current capacity. The Tagoloan, Misamis Oriental brewery is scheduled for completion in the latter part of 2019. The Sta. Rosa, Laguna facility, which had an additional bottling line completed in the fourth quarter of 2018, will be a full-fledged brewery by 2020. Aside from increasing capacity, the new facilities are expected to help ensure product availability and strengthen distribution networks in Southern Luzon and Mindanao.

SMB International Operations

SMB's international operations recorded growth in sales volumes in South China, Indonesia, and Exports. Despite certain challenges in the operating environments in North China, Hong Kong, Thailand, and Vietnam, SMB International still registered double-digit growth in operating profit in 2018.

Key programs are in place to improve SMB's brand volumes and expand its distribution network, supported by trade, promotions, and channel programs.

Fresh and engaging campaigns aimed at generating loyalty and growing the consumer base, aggressive defense programs, better sales and distribution execution, and a favorable operating environment all contributed to SMB's record-breaking year.



FOOD

SAN MIGUEL PURE FOODS

San Miguel Pure Foods (SMPF) continued to make progress in 2018, posting consolidated revenues of P132.3 billion, 13% higher than the previous year. Market conditions have been exceptionally challenging throughout the year, yet SMPF remained resilient against a backdrop of depreciating peso and increasing costs of key raw materials. Most of the Food business segments registered double-digit revenue growth, led by the Animal Nutrition and Health, Protein, and Prepared and Packaged Food businesses. Reported operating income, on the other hand, declined by 7% to P9.2 billion compared to last year.

14%↑
REVENUE
ANIMAL HEALTH AND NUTRITION

Animal Nutrition and Health

The Animal Nutrition and Health segment, representing the feeds and veterinary medicine businesses, accelerated its volume growth performance in 2018, generating a revenue growth of 14% from the previous year. The business delivered another year of broad-based growth buoyed by most feed types, led by the B-MEG hog feeds and B-MEG Integra lines.

Amid challenging market conditions and intense regional competition, the business maintained its market leadership augmented by aggressive marketing activities and campaigns, expansion of existing broiler farms, increased market penetration in Luzon and Mindanao, and improved trade placement in North Luzon and Visayas.

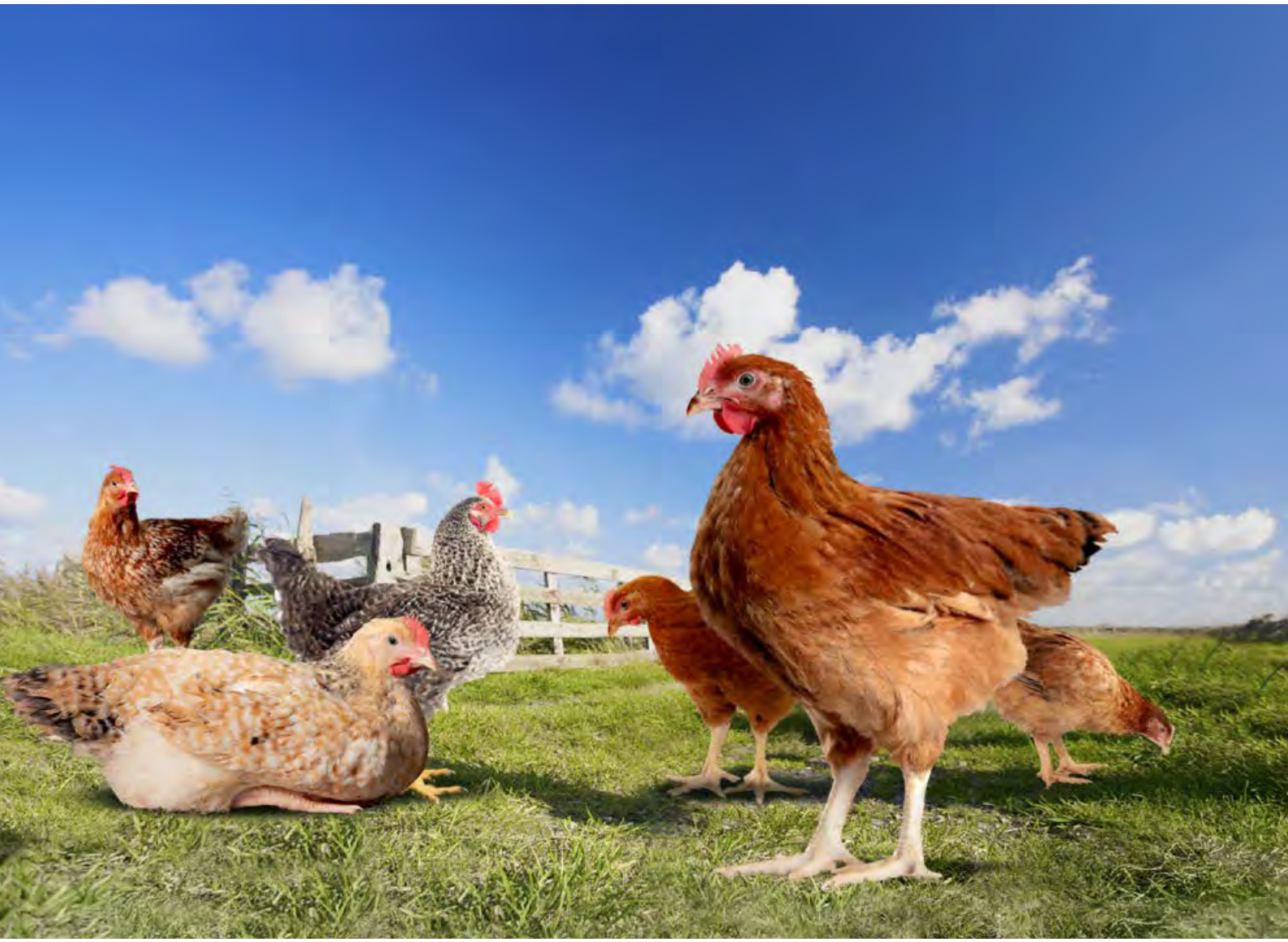
To cope with the higher cost of raw materials particularly feed wheat and corn, the feeds segment initiated a series of selling price increases.

Meanwhile, revenues from the veterinary medicine business grew by 36% year-on-year driven by increased distribution in the trade as well as improved supply. This was complemented by the successful product launches of B-MEG Integra Feathershine Shampoo, and the bigger stock keeping units (SKUs) of Multi V and Bulatigok for commercial farms.

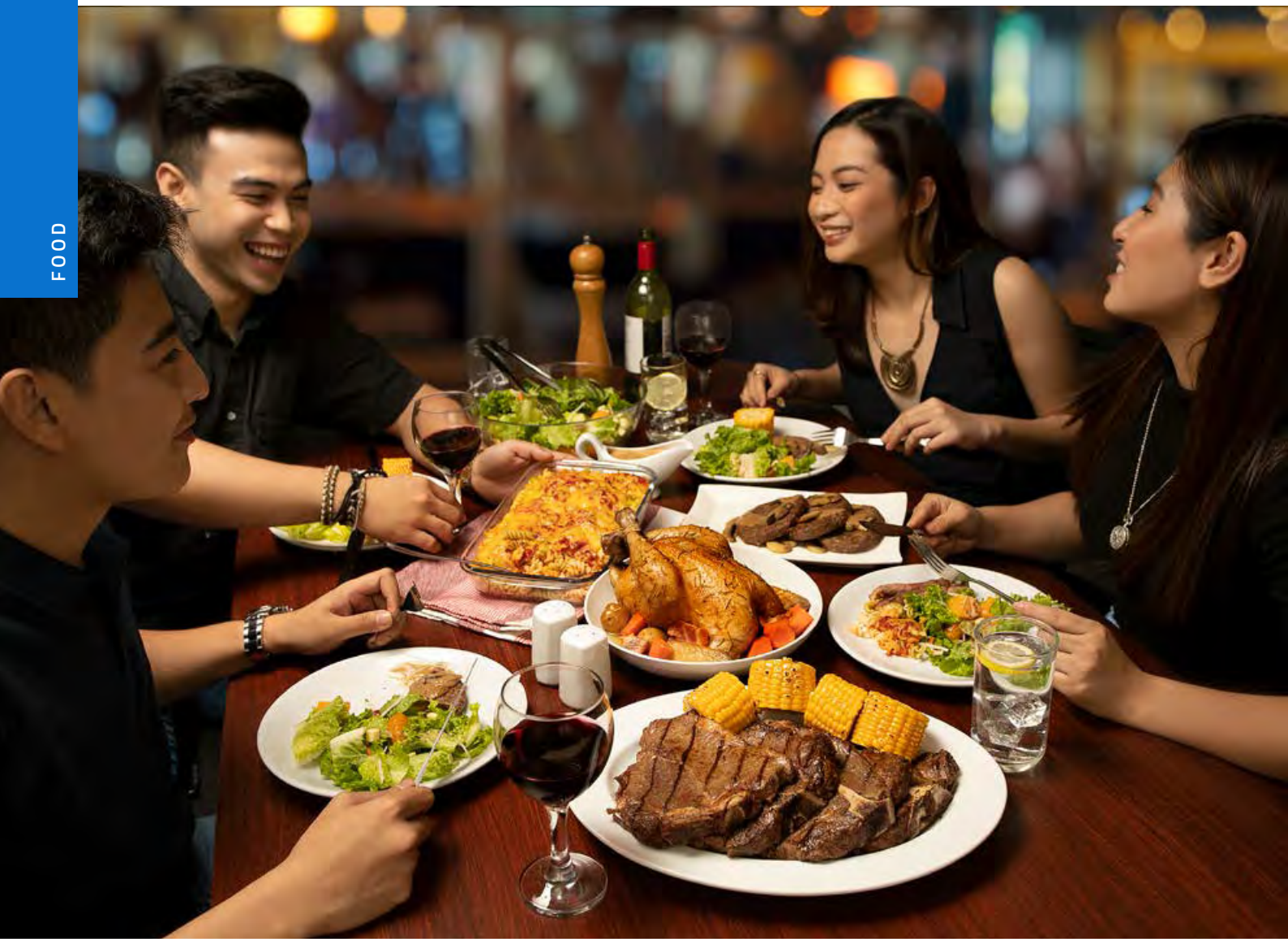
Other launches for core feeds products included B-MEG Integra 12 Kinds, capitalizing on the increased penetration of the pure grains segment, and B-MEG Mega Mash, an improved mash formulation which delivers superior performance for hog growers. Several feed premixes (Swine Mineral Premix, Swine Vitamin Premix, Poultry Mineral Premix, and Poultry Vitamin Premix) were also introduced to cater to the increasing demand for the self-mix markets. As consumers remained cost-conscious, the business responded by offering small pack SKUs of B-MEG Integra 1000, 2000, and 3000 to improve distribution and expand its availability in small feed stores.

In line with its strategy to increase production capability, improve operational efficiencies, and sustain market leadership, three world-class and state-of-the-art feed mills were built in Bataan, Bulacan, and Davao, and have started commissioning in 2018. Two more feed mills in various stages of construction are set for commissioning in 2019.

The business maintained its market leadership augmented by aggressive marketing activities and campaigns, expansion of existing broiler farms, increased market penetration, and improved trade placement.



In recognition of Magnolia and Monterey brands' sustained leadership and strong commitment to deliver quality products to its customers, Reader's Digest accorded both brands its Trusted Brand Platinum Award for 2018. Magnolia Chicken also earned two PANAta Awards for its Pambansang Manok marketing campaign – a silver award for the Marketing Innovation category and a bronze award for the Customer Empowerment category.



Protein

The largest segment in SMPF advanced further, generating an 11% growth in revenues on the back of 7% volume growth. This segment includes the poultry and fresh meats businesses under the brand names Magnolia and Monterey, respectively.

The Protein segment continued to perform well in 2018, benefitting from a stable supply and better prices for hog and chicken, as well as healthy volume gains. Sales volume increased due to the stronger demand for protein products and favorable sales mix. Average selling price rose by 4% for 2018, partially tempered by the significant reduction in average selling price in the fourth quarter.

To recall, the Department of Agriculture suspended the special safeguard (SSG) duty on imported chicken in August 2018 in response to rising inflation rates. SSG is a trade measure that allows countries to impose additional tariffs when the value of an imported product is below the trigger price. This move resulted in an industry oversupply of chicken in the fourth quarter of 2018 and is expected to last up to the second quarter of 2019. As a result, chicken prices started to drop as markets were flooded with imported leg quarters from the US, the Netherlands, and Brazil.

Thanks to the business' strength in portfolio management, effective distribution strategy, and increasing contribution of its value-added products, average prices of the Protein business' branded and institutional categories remained stable. However, the retail category, which includes the wet markets and supermarket distributors, experienced fluctuations in prices.

To support its effective retail execution, the Protein segment has expanded its branded outlets reaching to almost 1,700 Magnolia Chicken Stations and Monterey Meatshops and Community Markets nationwide. This addresses the consumers' growing preference for freshness and convenience while cushioning price movements caused by changes in the industry demand and supply.

In recognition of Magnolia and Monterey brands' sustained leadership and strong commitment to deliver quality products to its customers, Reader's Digest accorded both brands its Trusted Brand Platinum Award for 2018. Magnolia Chicken also earned two PANAta Awards for its Pambansang Manok marketing campaign – a silver award for the Marketing Innovation category and a bronze award for the Customer Empowerment category.

11%↑
REVENUE
PROTEIN

11% ↑
REVENUE
PREPARED AND PACKAGED FOOD

6% ↑
REVENUE
FLOUR MILLING

Prepared and Packaged Food

The Prepared and Packaged Food segment, composed of processed meats, dairy, spreads, biscuits, and coffee businesses, enjoyed a good year with combined revenues up 15% compared to last year.

The consistent and robust growth was driven by the core businesses such as refrigerated meats, canned meats, dairy, spreads, biscuits, and coffee. The strengthened revenue growth reflected the business' continued focus on its core brands, greater channel distribution and penetration, and the introduction of new innovative products to address key consumer trends.

Flagship product Tender Juicy hotdog had another strong year helped by effective marketing campaigns resulting into faster growth for the brand across all channels. Likewise, the expansion of the business' consumer base drove volumes across the portfolio. Despite the growing presence of economy brands, increased market penetration and product awareness aided the brand in reasserting its market leadership.

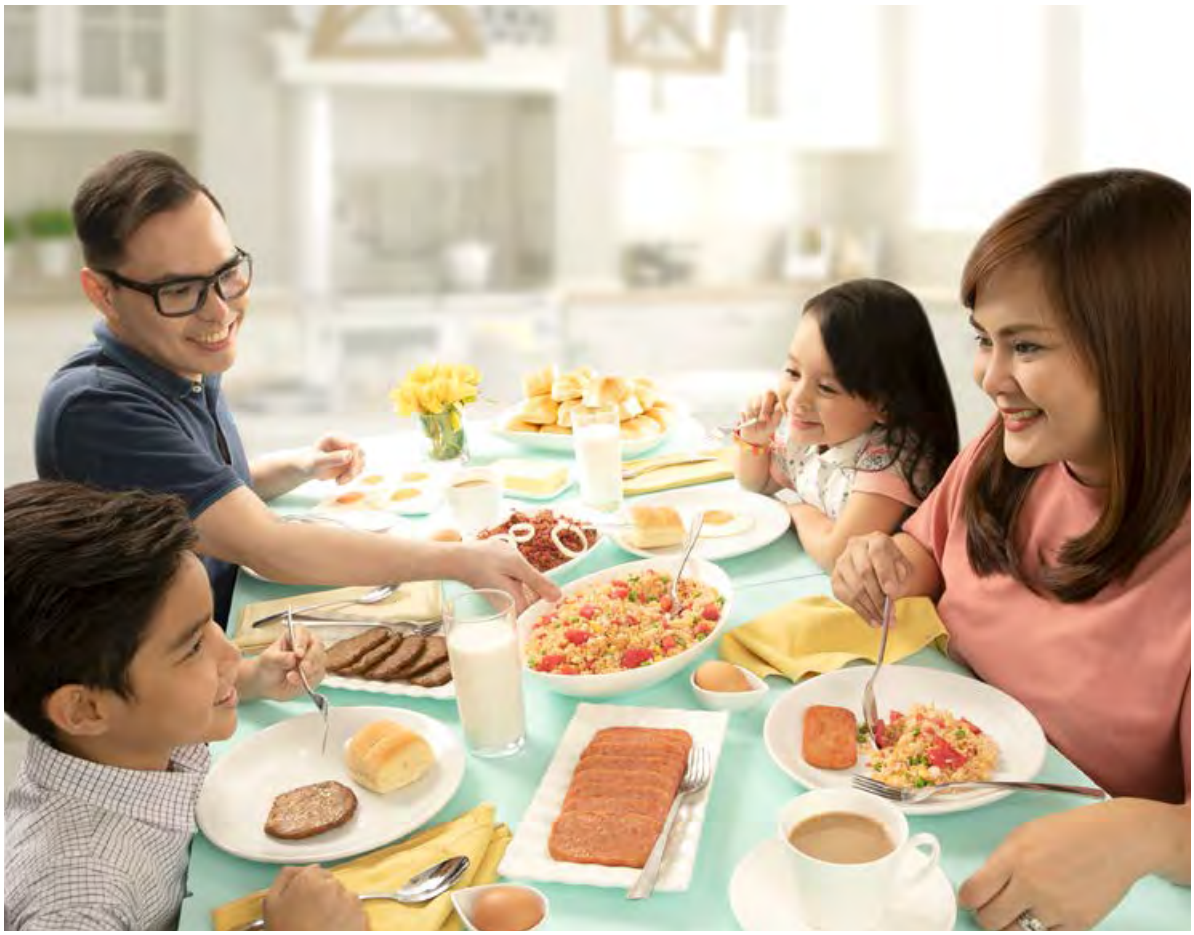
The broad-based volume improvement experienced in all trade channels was boosted by intensified sales and distribution efforts, as the business beefed up its sales and logistics manpower, and reinforced its fleet through the acquisition of new trucks. The strategy of directly servicing its key wet market accounts has also paid off, resulting in sales revenue growth of 18% for this channel. In addition, increased presence in the Visayas and Mindanao areas resulted in sales revenue growth of 10%.

The processed meats business remained the major contributor to revenue growth, fueled by the double-digit growth of nuggets and bacon performing strongly alongside market leader, Tender Juicy. To expand its production capability and improve efficiencies, another hotdog facility was constructed beside the existing Purefoods-Hormel Cavite plant and started operations last June 2018. As the biggest plant in Asia, the new plant will eventually double the hotdog production capacity of Purefoods-Hormel. The business also became the exclusive importer and distributor of SPAM in the Philippines, further solidifying its partnership with Hormel Foods International Corp.

Meanwhile, the combined dairy, spreads, biscuits, and coffee businesses accelerated to achieve double-digit growth, driven primarily by its core categories such as cheese, butter, and margarines as well as the introduction of new products. In 2018, SMPF's major product launches included Cheezee Milky White variant, Chocolait re-launch, new ice cream flavors under the Best of the Philippines and Gold Label lines, La Pacita Oat Cookies Dark Chocolate, and San Mig Sugarfree White variant. SMPF also acquired the Cookbest and Golden Fry cooking oil brands to expand its offering across all price points. New product introductions as well as core brands like Star Margarine and Dari Creme were also supported with TV and digital campaigns, merchandising, distribution drives, product sampling, and promotions to generate awareness and trial. All of these resulted in strong performance in the market with Magnolia Dairy brands in particular gaining market share across all key categories against multinational competition.

Others

Flour milling, premixes and baking ingredients, foodservice, and franchising, together with international operations and grain terminal operations, expanded by 7% mainly driven by higher volumes of both flour and the grain terminal operations.



Last August 2018, most flour mills implemented price increases to cushion the impact of higher wheat costs in the first half of 2018 and a weaker peso. This price adjustment resulted in an improvement of margins. Despite the series of price hikes implemented on hard flour last year, sales volumes grew led by the premium brands coupled with the opening of new accounts, better product availability, and superior service quality.

To serve the growing demand from its customers, the business is currently building a new flour milling facility in Batangas to provide additional capacity to the existing plants. It also continues to focus on improving operational efficiencies, innovating, and introducing value-added products such as customized and specialty premixes and Kambal Pandesal to temper the impact of volatile wheat prices.

On the other hand, SMPF's foodservice arm, Great Food Solutions (GFS), delivered double-digit revenue growth the past year. This is primarily fueled by the rising trend of out-of-home dining, allowing the business to seize opportunities presented by the growing demand for ready-to-eat meals. Once its new ready-to-eat plant in Laguna is fully operational, GFS will go full swing in delivering restaurant operators' need for convenient and safe food products.

GINEBRA SAN MIGUEL INC.

19%↑ CONSOLIDATED REVENUES

40%↑ CONSOLIDATED INCOME FROM OPERATIONS

75%↑ CONSOLIDATED NET INCOME

For Ginebra San Miguel Inc. (GSMI), much of 2018 was focused on increasing market share in the overall spirits industry. The company prioritized certain key areas that led to significant wins, the most notable of which was the achievement of over P1.0 billion in profits.

Despite the highly competitive nature of the spirits industry, GSMI's total sales volume increased by 13% from the previous year through its flagship Ginebra San Miguel and Chinese wine brand Vino Kulafu.

Apart from its core products, supporting brands such as GSM Blue Light and the Blue Flavors line registered an aggregate volume growth of 69%, well ahead of the company's own forecast and proving that these brands are strong platforms for future growth.

Given the strong sales profile, GSMI registered consolidated revenues of P24.8 billion during the year, a 19% increase from the year before. Operating margins also showed a marked improvement given the company's efforts to broaden its alcohol and bottle supplier base, its success from extracting higher yields from its distillery, as well as streamlining internal processes, logistics, and bottling operations.

All these helped temper the impact of higher raw materials and production costs driven by substantial adjustments in fuel excise tax, the depreciation of the peso, and higher inflation in the latter part of the year.

GSMI's income from operations amounted to P1.8 billion, 40% higher than the year before. Net income amounted to P1.1 billion, 75% higher versus 2017 and the highest recorded by the company in the last 14 years.

GSMI's brand equity has been anchored on Filipino values and ideals. Its breakthrough campaign, "Ginebra Ako", further deepened its commitment to represent the best of what it means to be Filipino. It highlights the ordinary Filipino's everyday heroism, resilience, and courage, which resonate well with consumers.

GSMI is attuned to consumer preferences and evolving market trends. It strives to produce and implement marketing strategies that are consumer-focused to further build its brand equity and meaningfully engage consumers across multiple platforms. It also continues to broaden its distribution coverage for a wider and deeper traction for its brands.

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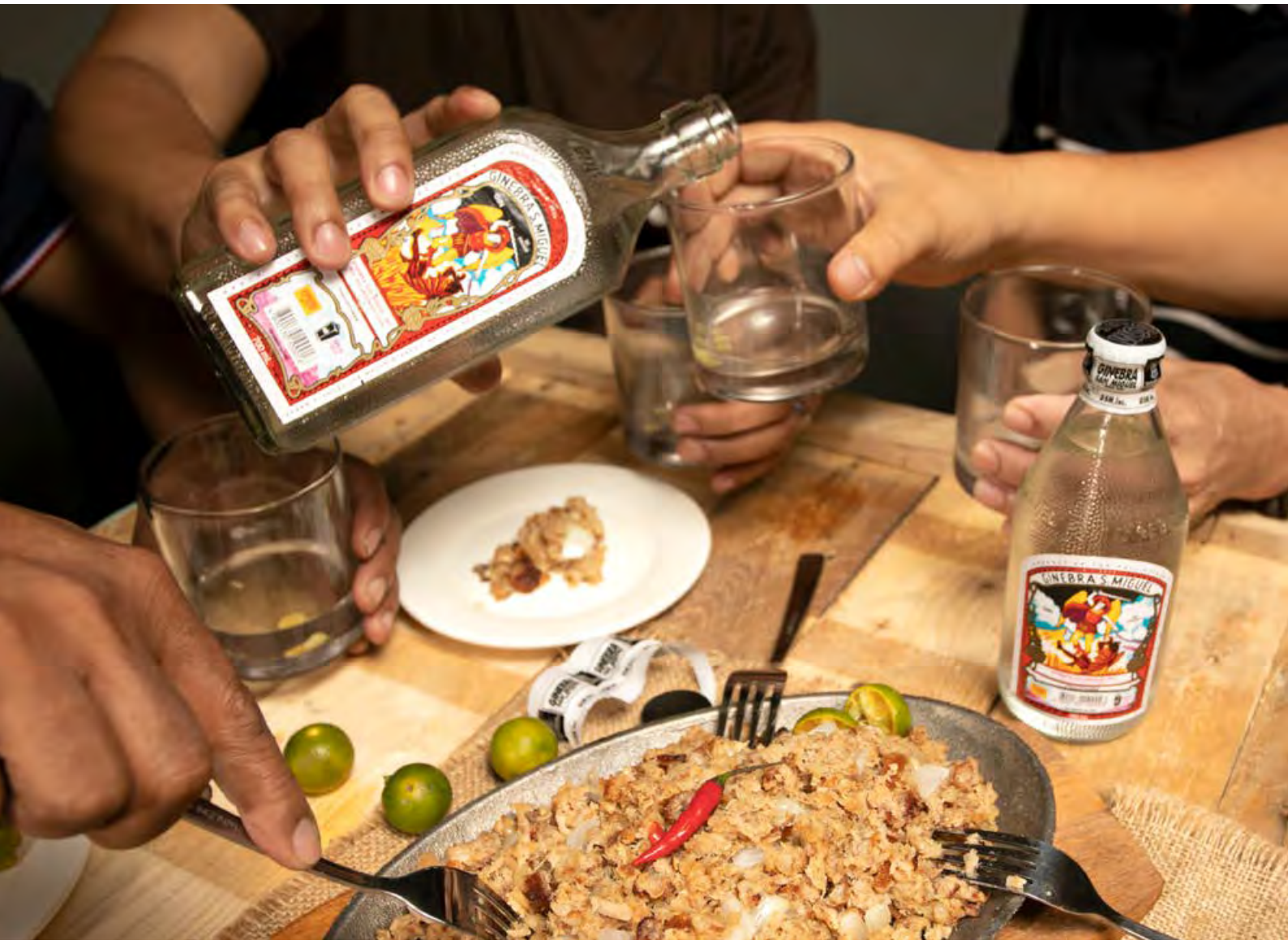
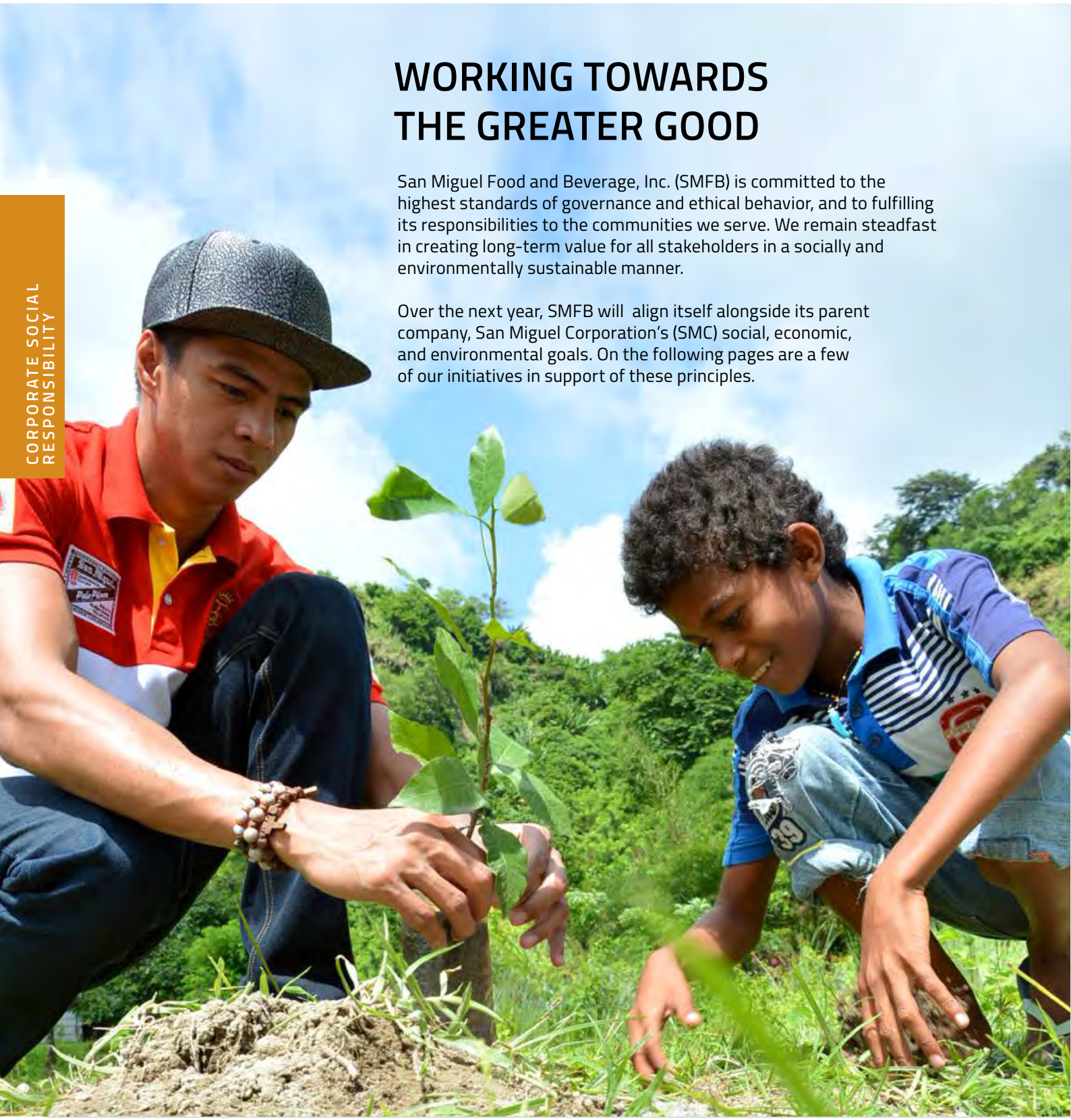


WORKING TOWARDS THE GREATER GOOD

San Miguel Food and Beverage, Inc. (SMFB) is committed to the highest standards of governance and ethical behavior, and to fulfilling its responsibilities to the communities we serve. We remain steadfast in creating long-term value for all stakeholders in a socially and environmentally sustainable manner.

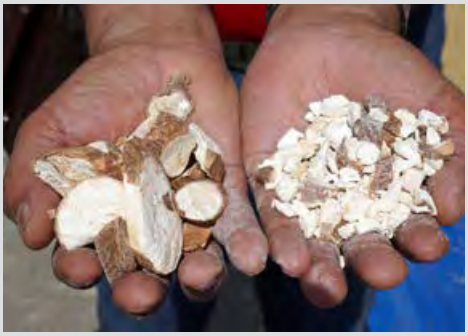
Over the next year, SMFB will align itself alongside its parent company, San Miguel Corporation's (SMC) social, economic, and environmental goals. On the following pages are a few of our initiatives in support of these principles.



We do business responsibly

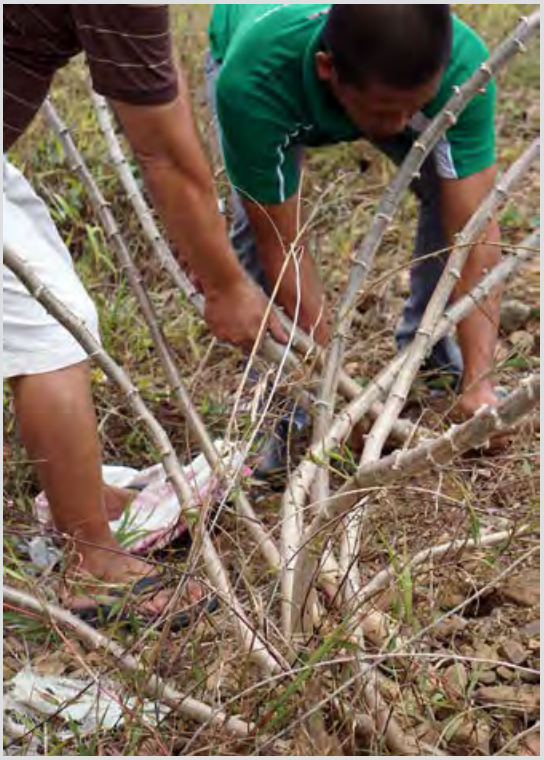
Creating platforms for economic growth

- San Miguel Pure Foods (SMPF) has been a pioneer in contract growing, offering farmers assistance in growing cash crops like cassava or corn. In areas like Bukidnon, Isabela, and Mindoro, the company provides an assured long-term market for the farmers' produce and guaranteed purchase of their harvest. The Food Division has provided thousands of farmers with technical assistance that allow them to deliver the best yields. They also offer advances on post-harvesting.



- Ginebra San Miguel Inc. (GSMI) has launched a project that intends to close the loop in handling production waste. The "boteful project" aims to retrieve and reuse its old bottles. This first salvo retrieved 6,000 cases or a total of 150,000 bottles with the help of the community.

- San Miguel Brewery Inc. (SMB) also supported an income-generating project where residents in Barangay Darong were trained on basic livelihood skills such as cosmetology, beauty care, and massage with some of the graduates already working abroad.



- SMPF engages with cassava farmers and local contract growers for livestock, providing them technology know-how to make their means of livelihood more efficient. Its feeds arm, B-MEG, also works with farmers nationwide by providing them with raw materials, training, and technology to increase productivity. Massive investments in its feed mills help assure food security for the Philippines.

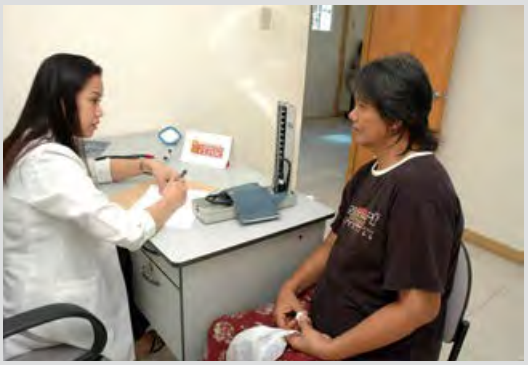
- As a project under "Handog Komunidad," the company partnered with International Justice Mission (IJM) Philippines—an NGO that advocates against the online sexual exploitation of children. Lost Coin Philippines, an IJM beneficiary based in Pampanga, is the chosen beneficiary of the SMFB x IJM partnership.

- SMFB creates thousands of jobs. Employees are given competitive compensation and benefits, as well as opportunities to develop technical and lifelong skills.

We are a good neighbor

Building self-reliant and resilient communities

- In line with the development of parent SMC's Better World Community in Tondo, Manila, SMPF and San Miguel Properties, Inc. are working closely with Rise Against Hunger and AHA Learning to set up a community center and food bank that will not only feed, but also teach the poor to lift themselves out of poverty through values formation and after-school learning. Overall, the project aims to serve three to five million meals a year to the poorest of the poor beginning 2019.

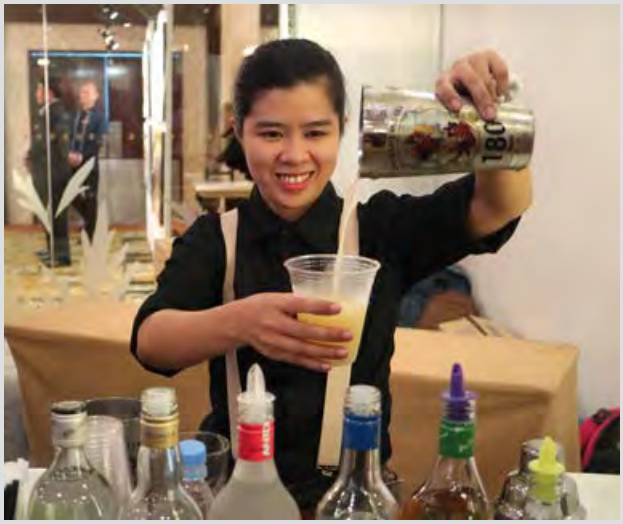


- The company has a network of community clinics located in Valenzuela, Pampanga, Cebu, Bacolod, Davao del Sur, Batangas, Tarlac, and Bukidnon to provide consultation, diagnostic services, and medicines to indigent patients—some equipped with x-ray, ECG, and ultrasound machines. Our community clinics have benefitted over 10,000 patients who were provided free diagnostic procedures, consultations, and medicines. This is apart from the thousands of patients we have helped through our medical missions nationwide.

- In Hong Kong, San Miguel Brewery Hong Kong Limited (SMBHK) advocates against drunk driving; educating consumers through a program called the Forum for Responsible Drinking. SMBHK conducts university tours and has partnered with an educational theater company to increase awareness on the effects of underage drinking.

- SMB has donated one amphibious vehicle and five rubber boards to the Armed Forces of the Philippines. Our beer company also donated a fire truck to Sta. Cruz, Davao del Sur.

- SMC has long been a proponent of education—from providing scholarships to deserving underprivileged students, to facilitating training and further education to its direct CSR beneficiaries. GSMI, for instance, has partnered with TESDA to provide entrepreneurship training to deserving students, with graduates of the program given a mobile bar to get them started. For almost two decades now, GSMI-Distileria Bago, Inc. has been extending support to day care centers near its facility in Bago City, Negros Occidental by providing honorarium to the DSWD day care teachers assigned in barangays Calumangan and Taloc.



- Since its inception, SMB has been a staunch supporter of DepEd's Brigada Eskwela program. In 2018, at least 210 volunteers from our various facilities in Valenzuela, Laguna, Pampanga, Mandaue, Davao, and Bacolod volunteered to clean, paint, repair classrooms and tendered their gardens. On top of this, school supplies and equipment to 16 identified schools were also donated.

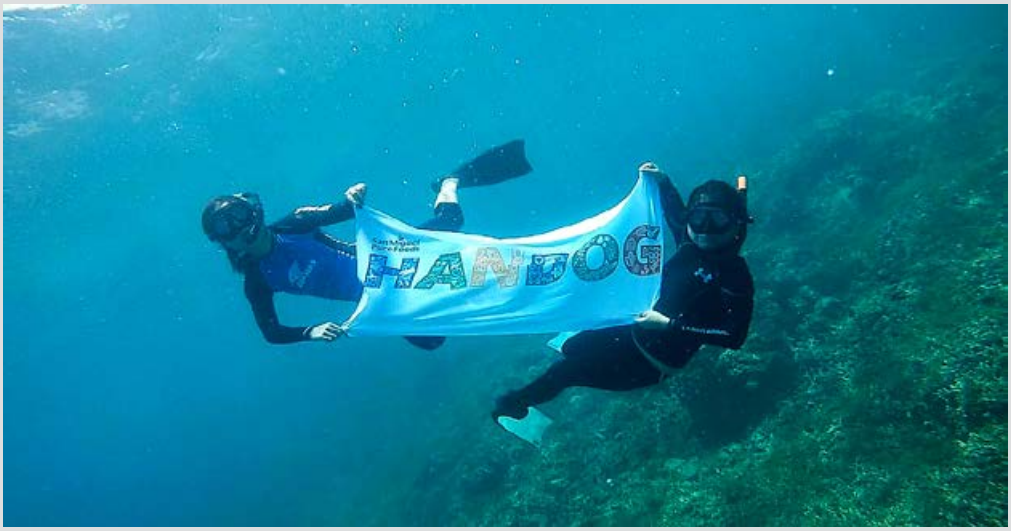
- SMPF employee volunteers held "One Good Deed Day"—a day when employees devoted their personal time to engage with students, children with special needs, and residents of their host communities in North and Central Luzon.

We are stewards for future generations

Protecting natural resources is part of the way we do business

- Now on its ninth year, SMB's Trees Brew Life program has planted and raised nearly one million assorted fruit-bearing, forest and mangrove tree species in the provinces of Pampanga, Laguna, Negros, Cebu, and Davao del Sur and the cities of Quezon and Makati. SMB also has a nursery in San Fernando, Pampanga. This program supports the DENR's Expanded National Greening Program. SMB has been conferred the Green Lion Award from Sta. Rosa, Laguna; recognized as the Best LGU Partner in Environmental Sustainability by Valenzuela City; and given the Environment Award of recognition from the Environment Management Bureau.

- SMC's investment in filtration technology has been deployed during calamities to make safe drinking water available to affected families. This is in lieu of environmentally unsustainable bottled water—a business, under SMB's non-alcoholic beverages division, that the company exited in 2018. This effort alone has resulted in 32 million plastic bottles less in circulation every year.



- Together with Reef Check Philippines, a non-profit organization dedicated to marine conservation, SMPF held an educational workshop on the importance of corals and how to protect marine life. Employee volunteers went underwater to observe and report the condition of corals in Mabini, Batangas.

- SMB's facilities and energy managers are consistent awardees of the Don Emilio Abello Energy Efficiency Awards. Many of its facilities have been recognized as Hall of Famers by the Department of Energy.

- In relation to SMC and the DENR's joint commitment to undertake an extensive clean-up of the Tullahan river system, a crucial step to rehabilitating the Manila Bay, SMB propagates vetiver and Bokashi balls that absorb waste from Tullahan. Its other facilities are also involved in other clean-up initiatives such as: Tipolo Creek clean-up program of the DENR and Brgy. Tipolo that is supported by its Mandaue Brewery; the Adopt-an-Estero program for Cabacauan creek supported by the Bacolod facility; and breweries in Pampanga and Davao maintaining the waterway fronting the plants. SMB is also involved in estero clean-up projects initiated by the city governments of Makati and Las Piñas, and the MMDA. In Thailand, it has participated in clean-up programs in the Wattain-Taway area in Baan Mai.

BOARD OF DIRECTORS

Mr. Eduardo M. Cojuangco, Jr.
Chairman of the Board
Non-executive Director
Chairman, Executive Committee

Mr. Ramon S. Ang
Vice Chairman, President and Chief Executive Officer
Executive Director
Member, Executive Committee

Mr. Francisco S. Alejo III
Chief Operating Officer for Food
Executive Director
Member, Executive Committee

Mr. Roberto N. Huang
Chief Operating Officer for Beer
Executive Director
Member, Executive Committee

Mr. Emmanuel B. Macalalag
Chief Operating Officer for Liquor
Executive Director

Mr. Ferdinand K. Constantino
Treasurer
Non-executive Director
Member, Board Risk Oversight Committee

Ms. Aurora T. Calderon
Non-executive Director
Member, Audit Committee

Mr. Menardo R. Jimenez
Non-executive Director
Member, Board Risk Oversight Committee
Member, Corporate Governance Committee

Ms. Ma. Romela M. Bengzon
Non-executive Director

Mr. Carmelo L. Santiago
Lead Independent and Non-executive Director
Chairman, Related Party Transactions Committee
Member, Board Risk Oversight Committee
Member, Corporate Governance Committee

Ms. Minita V. Chico-Nazario
Independent and Non-executive Director
Chairperson, Corporate Governance Committee
Member, Related Party Transactions Committee
Member, Board Risk Oversight Committee

Mr. Ricardo C. Marquez
Independent and Non-executive Director
Chairman, Board Risk Oversight Committee
Member, Audit Committee
Member, Corporate Governance Committee

Mr. Cirilo P. Noel
Independent and Non-executive Director
Chairman, Audit Committee
Member, Related Party Transactions Committee

Mr. Winston A. Chan
Independent and Non-executive Director
Member, Audit Committee
Member, Related Party Transactions Committee

Eduardo M. Cojuangco, Jr., Filipino, 83, is the Chairman and a non-executive director of the Company, a position he has held since May 22, 2001, and Chairman of the Company's Executive Committee (since April 25, 2002). He is also Chairman and Chief Executive Officer of listed companies San Miguel Corporation and Ginebra San Miguel, Inc. He is likewise the Chairman of listed company Petron Corporation, and private companies ECJ and Sons Agricultural Enterprises, Inc., San Miguel Northern Cement, Inc., Northern Cement Corporation and the Eduardo Cojuangco, Jr. Foundation, Inc.; and a Director of Caiñaman Farms, Inc. Mr. Cojuangco attended the College of Agriculture, University of the Philippines, as well as California Polytechnic College in San Luis Obispo, U.S.A. Among others, he was conferred the Degree of Doctor of Economics Honoris Causa by the University of Mindanao and the Degree of Doctor of Agri-Business Honoris Causa by the Tarlac College of Agriculture.

Ramon S. Ang, Filipino, 65, was appointed President and Chief Executive Officer of the Company on July 5, 2018. He is also the Vice Chairman of the Company, a position he has held since May 13, 2011. He has been a 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, President, Chief Executive Officer and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., SEA Refinery Corporation and San Miguel Energy Corporation; Chairman of listed companies Eagle Cement Corporation, San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange) and Petron Malaysia Refining and Marketing Bhd. (a company publicly listed in Malaysia), public company San Miguel Brewery Inc., and private companies, San Miguel Yamamura Packaging Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc. and Manila North Harbour Port, Inc. He is also the President and Chief Executive Officer of listed companies Top Frontier Investment Holdings Inc. and Petron Corporation, and private company Northern Cement Corporation; and President of listed company Ginebra San Miguel, Inc. and private company San Miguel Northern Cement, Inc. He is also the sole director and shareholder of Master Year Limited and Chairman of Privado Holdings, Corp. He formerly held the following positions: Chairman of Liberty Telecom Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc. and private company Philippine Airlines, Inc.; Vice-Chairman of Manila Electric Company; and Director of Air Philippines Corporation. Mr. Ang holds a Bachelor's Degree in Mechanical Engineering from Far Eastern University, and a Doctorate in Business Engineering, Honoris Causa, from the same university.

Francisco S. Alejo III, Filipino, 70, was appointed Chief Operating Officer – Food on July 5, 2018. Before this appointment, he was the President of the Company (from May 2005 to July 2018). 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 of RealSnacks Mfg. Corp., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Pure Foods (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., and San Miguel Pure Foods International, Limited (BVI); Vice Chairman of San Miguel Foods, Inc. and San Miguel Mills, Inc.; President of Magnolia Inc.; Director of listed company Ginebra San Miguel, Inc. and private companies The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), and San Miguel Pure Foods Investment (BVI) Ltd.; 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.

Roberto N. Huang, Filipino, 70, was appointed Chief Operating Officer – Beer on July 5, 2018. He has been an executive director of the Company since January 9, 2019 and member of the Company's Executive Committee since February 6, 2019. Mr. Huang is Director and President of public company San Miguel Brewery Inc., a position that he has held since May 2009. He is also a member of San Miguel Brewery Inc.'s Executive Committee. He is likewise Director of San Miguel Brewing International Limited and San Miguel Brewery Hong Kong Limited; and Chairman and President of Iconic Beverages, Inc., Brewery Properties Inc. and Brewery Landholdings, Inc. Mr. Huang holds a Bachelor of Science Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University.

Emmanuel B. Macalalag, Filipino, 53, was appointed Chief Operating Officer – Liquor on July 5, 2018. He has been an executive director of the Company since January 9, 2019. Mr. Macalalag is General Manager of Ginebra San Miguel, Inc. (GSMI). He currently holds the following positions in the various subsidiaries and affiliate of GSMI: Director and General Manager of Distileria Bago, Inc. and East Pacific Star Bottlers Phils Inc., and Director of Thai San Miguel Liquor Company Limited (TSML). He previously held the following positions in GSMI: Manufacturing Group Manager,

Manufacturing Operations Group Manager, and Planning and Management Services Manager. Mr. Macalalag obtained his Bachelor of Science in Mathematics degree from De La Salle University (DLSU), Manila where he graduated cum laude. He also holds a Master's degree in Mathematics from DLSU and PhD degree in Operations Research from the University of Melbourne, Australia.

Ferdinand K. Constantino, Filipino, 67, was appointed Treasurer of the Company on July 5, 2018. He has been a non-executive director of the Company since January 9, 2019, and member of the Company's Board Risk Oversight Committee since February 6, 2019. Mr. Constantino is Director of public company San Miguel Brewery Inc. and is the Chairman of San Miguel Brewery Inc.'s Executive Compensation Committee and a member of its Audit Committee and Governance and Nomination Committee. He also holds, among others, the following positions: Senior Vice President, Group Chief Finance Officer and Treasurer of San Miguel Corporation; Director of listed companies Top Frontier Investment Holdings, Inc. and Petron Malaysia Refining and Marketing Bhd (a company publicly listed in Malaysia); Director and Vice Chairman of SMC Global Power Holdings, Corp; President of Anchor Insurance and Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, Citra Metro Manila Tollways Corporation, Clariden Holdings Inc, San Miguel Holdings Corp., and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of San Miguel Foundation, Inc. and SMC Stock Transfer Services Corporation. He was formerly a Director of PAL Holdings, Inc. and Philippine Airlines, Inc. Mr. Constantino holds a Bachelor of Arts Degree in Economics from the University of the Philippines and completed academic requirements for a Master's Degree in Economics from the University of the Philippines.

Aurora T. Calderon, Filipino, 64, has been a non-executive director of the Company since January 9, 2019, and member of the Company's Audit Committee since February 6, 2019. Ms. Calderon is the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation (SMC). She is a member of the Corporate Governance Committee of SMC. She holds the following positions in other listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of Petron Corporation, Petron Malaysia Refining and Marketing Bhd. (a company publicly listed in Malaysia) and Ginebra San Miguel, Inc. She is also a member of the board of directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, and San Miguel Equity Investments Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, Vega Telecom, Inc. and Bell Telecommunications Philippines, Inc. A certified public accountant, Ms. Calderon graduated magna cum laude from the University of the East with a degree in BS Business Administration, major in Accountancy. She finished her Masters in Business Administration at Ateneo de Manila University (without thesis). In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Menardo R. Jimenez, Filipino, 86, has been a non-executive director of the Company since April 25, 2002. He is a member of its Board Risk Oversight Committee (since May 12, 2017) and Corporate Governance Committee (since February 6, 2019). He was previously a member of its Audit Committee (from June 2008 to February 2019) and Related Party Transactions Committee (from May 2017 to February 2019). He was Chairman of the former Executive Compensation Committee (from May 2006 to May 2017) and Nomination and Hearing Committee (from November 2013 to May 2017). Mr. Jimenez is a Director of listed company San Miguel Corporation and private company Magnolia Inc. He likewise holds the following positions: Chairman of Majent Management and Development Corporation, Coffee Bean and Tea Leaf Holdings, Inc. and Meedson Properties Corporation. He was previously Chairman of United Coconut Planters Bank (from 2011 to 2017). Mr. Jimenez holds a Bachelor's Degree in Commerce from Far Eastern University and is a Certified Public Accountant. Among others, he was conferred Doctorates in Business Management Honoris Causa by University of Pangasinan and Pamantasan ng Lungsod ng Maynila.

Ma. Romela M. Bengzon, Filipino, 58, has been a non-executive director of the Company since May 11, 2018. Atty. Bengzon is currently a director of private companies Petron Marketing Corporation, Webforge Philippines, Diezmo Realty Inc. and Geonobel Philippines. She is Managing Partner of the Bengzon Law Firm. Atty. Bengzon holds a Bachelor of Arts Degree in Political Science from University of the Philippines and a Bachelor of Laws Degree from Ateneo de Manila University School of Law. She is also a member of the New York State Bar.

Carmelo L. Santiago, Filipino, 76, has been an independent and non-executive director of the Company since August 12, 2010. He is the Chairman of the Company's Related Party Transactions Committee since February 6, 2019 and a member thereof since May 12, 2017. He is also a member of the Company's Board Risk Oversight Committee and Corporate Governance Committee, both since May 12, 2017. Mr. Santiago was previously Chairman of the Audit Committee (from November 2013 to February 2019), Chairman of the former Nomination and Hearing Committee (from May 2011 to May 2017) and member of the former Executive Compensation Committee (from June 2008 to May 2017). He is an Independent Director of public company San Miguel Brewery Inc.; and Director of Terbo Concept, Inc. and Aurora Pacific Economic Zone and Freeport Authority. He is also an Independent Non-Executive Director of San Miguel Brewery Hong Kong Limited. Mr. Santiago is the Founder and Chairman of Melo's Chain of Restaurants and the Founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from University of the East.

Minita V. Chico-Nazario, Filipino, 79, has been an independent and non-executive director of the Company since May 8, 2015. She is also Chairman of the Company's Corporate Governance Committee (since May 12, 2017) and member of the Related Party Transactions Committee (since May 12, 2017), and Board Risk Oversight Committee (since February 6, 2019). She was previously a member of the Company's Executive Committee and Audit Committee (from May 2015 to February 2019). Justice Nazario is likewise currently an Independent Director of listed companies Top Frontier Investment Holdings Inc. and Ginebra San Miguel, Inc., and private company San Miguel Properties, Inc.; Chairman of Philippine Grains International Corporation, and Director of Mariveles Grain Corporation. She is also a Legal Consultant of Union Bank of the Philippines, United Coconut Planters Bank and Philippine Investment One & Two, Inc. She is the incumbent Dean of the College of Law of the University of Perpetual Help in Las Piñas City. She has served the Judiciary in various capacities for 47 years, with the last position she held being Associate Justice of the Supreme Court (from February 2004 to December 2009). Justice Nazario holds a Bachelor of Arts and a Bachelor of Laws Degree from University of the Philippines and is a member of the New York State Bar.

Ricardo C. Marquez, Filipino, 58, 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) and Corporate Governance Committee (since May 12, 2017). He was previously a member of the Related Party Transactions Committee (from May 2017 to February 2019). 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) and Director of Operations (from December 2013 to July 2015). Gen. Marquez holds a Bachelor of Science Degree from the Philippine Military Academy, and a Masters in Management Degree from Philippine Christian University.

Cirilo P. Noel, Filipino, 62, has been an independent and non-executive director of the Company since September 12, 2018. He is the Chairman of the Audit Committee since February 6, 2019 and member thereof since September 12, 2018. He is also a member of the Related Party Transactions Committee since February 6, 2019. Mr. Noel currently serves as Director of St. Luke's Medical Center, St. Luke's Foundation, St. Luke's Medical Center College, LH Paragon Inc., Philippine Airlines, Inc., Cal-Comp Technology Philippines, Inc., Amber Kinetics Holding Co. and listed companies Globe Telecoms, Inc., Security Bank Corporation, JG Summit Holdings, Inc., and PAL Holdings, Inc. He is also Chairman of Palm Concepcion Power Corporation. Mr. Noel is a founding Board Member of the US-Philippines Society as well as the Audit Committee Chairman and a Trustee of the Makati Business Club. He was a former member of the ASEAN Business Club. Mr. Noel continues to serve as a Trustee of the SGV Foundation. He held various positions in SGV & Co., the last of which was Chairman and Managing Partner (from February 2010 to June 2017). Mr. Noel holds a Bachelor of Science Degree in Business Administration from University of the East, a Bachelor of Laws Degree from Ateneo de Manila University School of Law and a Masters Degree in Law from Harvard Law School. He is also a fellow of the Harvard International Tax Program and attended the Management Development Program at the Asian Institute of Management.

Winston A. Chan, Filipino, 63, is an independent and non-executive director of the Company, as well as a member of the Company's Audit Committee and Related Party Transactions Committee, since February 6, 2019. He is currently a Director of listed company Premiere Horizon Alliance Corporation (since February 2018) and private companies Kairos Business Solutions, Inc. (since February 2018) and DataOne Asia (Philippines), Inc. (since July 2018). He is also Chairman of the ICT Scholarship Committee of SGV Foundation (since July 2002) and Member of the Board of Directors of Letran Alumni Association (since January 2018). In the last five years, Mr. Chan served as Advisor to the Board of Directors of listed company 2GO Group, Inc. (January to October 2018), and held the following positions in SGV & Co.: Management Committee Member and Managing Partner, Advisory Services, (July 2007 to June 2017) and Advisory Committee Member (July 2016 to June 2017). He was also Asia Coordinating Partner for EY Global 360 Accounts: Procter & Gamble, Bayer, Goodyear Tires and Sony (July 2007 to June 2017) and EY ASEAN Finance Advisory Leader (July 2012 to June 2015). Further, he was previously Co-president of the Harvard Club of the Philippines (January 2014 to December 2016) and Harvard Business School Club of the Philippines (January 2012 to December 2014). Mr. Chan holds a Bachelor of Science Degree in Accountancy from Colegio de San Juan de Letran, and is a Certified Information Systems Manager, a Certified Information Systems Auditor, and a Certified Public Accountant. He also completed the Advanced Management Program at Harvard Business School, the Advanced Business Strategy Course at INSEAD Singapore, and the Management Development Program at Asian Institute of Management.

KEY EXECUTIVES

Eduardo M. Cojuangco, Jr.
Chairman of the Board

Ramon S. Ang
Vice Chairman, President & Chief Executive Officer

Roberto N. Huang
Chief Operating Officer - Beer

Francisco S. Alejo III
Chief Operating Officer - Food

Emmanuel B. Macalalag
Chief Operating Officer - Spirits

Ferdinand K. Constantino
Treasurer

Ildefonso B. Alindogan
Chief Finance Officer & Chief Strategy Officer

Alexandra Bengson Trillana
Corporate Secretary & Compliance Officer

CORPORATE GOVERNANCE

San Miguel Food and Beverage, Inc., formerly San Miguel Pure Foods Company Inc. ("the Company") recognizes that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. The Company's Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

The Company, together with its intermediate parent San Miguel Corporation (SMC), has adopted a Manual on Corporate Governance that is aligned with the new Code of Corporate Governance for Publicly-Listed Companies issued by the Securities and Exchange Commission (SEC) in November 2016 (the "New CG Code"). The Company's Board of Directors, led by its Chairman, Mr. Eduardo M. Cojuangco, Jr., believes in conducting its business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

The Company continues to review and strengthen its policies and procedures, giving due consideration to areas that, for the best interests of the Company and its stockholders, need further improvement.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors (the "Board"), who believes in conducting the affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business transactions. The members of the Board, as well as the senior management of the Company and key finance personnel, have undergone the requisite training on corporate governance.

The Board is primarily responsible for promoting the Company's long-term growth and success and determining its mission, strategy and objectives. It is the Board's responsibility to secure and maintain the Company's competitive edge in a manner consistent with its fiduciary duties. Directors actively participate on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the Company, its shareholders and other stakeholders. The Company has no shareholder agreements, provisions in its by-laws, or other arrangements that constrain the directors' ability to vote independently. Directors with material interest in a transaction affecting the Company are required to abstain from taking part in the deliberations for the approval of the transaction.

In this connection, the Board exercises oversight responsibilities on the business affairs of the Company, reviews and approves the Company's financial statements, and ensures the presence of adequate and effective internal control mechanisms in the Company to manage business risk, as well as potential conflict of interest of management, the Board and the shareholders. The directors consider that the Company's financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of management and the Board with an appropriate consideration to materiality.

Composition and Qualification

In the year 2018, the Board consisted of nine members who held at least one share each in the capital stock of the Company. Following Board and stockholder approvals later in the year, as well as the approval of the SEC in January 2019, the number of directors as reflected in the amended Articles of Incorporation of the Company, is now 15. At the time of writing of this Annual Report, however, one seat remains vacant. All 14 incumbent directors of the Company are proven to possess integrity and probity in addition to the other qualifications of a director specified in the Company's Manual on Corporate Governance. Directors are elected by the stockholders with voting rights during the Annual Stockholders' Meetings (ASM). The Board members hold office for one year and until their successors are duly elected and qualified in accordance with the Company's By-laws and applicable laws and regulations.

A process of selection to ensure a mix of competent directors aligned with the Company's strategic directions is implemented. The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensures comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. More than 50% of the Board of Directors of the Company is comprised of non-executive directors. The Company's orientation program for new directors, wherein such directors are briefed on the Company's corporate structure, its Articles of Incorporation and By-laws (including the Company's ASM and Board meeting schedules), operations and plans of its businesses, financial performance, core purpose, core value, vision and strategic thrusts, Board Committees, key management and other relevant matters necessary and desirable to enable the new director to faithfully fulfill his duties and responsibilities to the Company, ensures meaningful discussion and participation of the Board in the governance of the Company. Copies of the Company's Manual on Corporate Governance, Code of Ethics, Dividend Policy and Policies on Securities Dealing, Conflict of Interest, Related Party Transactions, Whistleblowing, and Solicitation or Acceptance of Gifts are also provided to the new director, for his/her guidance.

Independent and Non-Executive Directors

Mr. Carmelo L. Santiago, retired Justice Minita V. Chico-Nazario and retired Gen. Ricardo C. Marquez were elected as independent and non-executive directors in the Company's Board at the ASM on May 11, 2018. In view of the resignation as director of Mr. Rolando L. Macasaet later in the year, Mr. Cirilo P. Noel was elected as independent and non-executive director of the Company on September 12, 2018. Upon the approval by the SEC of the amendment of the Articles of Incorporation of the Company reflecting the increase in Board composition from 9 to 15 in January 2019, Mr. Winston A Chan was elected as independent and non-executive director of the Company on February 6, 2019. Hence, five out of the 14 incumbent members of the Board are independent directors.

The Company is therefore compliant with the New CG Code, which requires at least three independent directors or such number as to constitute at least one-third of the members of the Board, whichever is higher. Moreover, one of such independent directors, retired Justice Minita V. Chico-Nazario, is female. All the independent directors of the Company have no ties to its management and substantial shareholders.

The Company defines an independent director as a director who, apart from his/her fees and shareholdings, has no business or relationship with the Company, which could, or could reasonably be perceived to, materially interfere with the exercise of his/her independent judgment in carrying out his/her responsibilities as a director. Among others, independent directors have the power and authority to review related party transactions entered into by the Company at any time.

The independent directors of the Company are nominated and elected in accordance with the rules of the SEC. Accordingly, with the New CG Code taking effect as of January 1, 2017, an independent director may serve as such for a maximum cumulative term of nine (9) years. After which, the independent director, will be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and election as a non-independent director. However, in the instance that the Company would want to retain an independent director who has served for nine years, the Board should provide meritorious justification and seek shareholders' approval during the ASM.

Further, in business conglomerates such as the San Miguel Group of which the Company is a part, an independent director may be elected as such to only five corporations of the conglomerate.

Pursuant to these rules, each independent director of the Company issues and submits to the Corporate Secretary for filing with the SEC together with the Definitive Information Statement for the ASM, a certification confirming that he/she possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election.

Moreover, in observance of the New CG Code, the non-executive directors of the Company shall concurrently serve as directors to a maximum of five publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge management's proposals and views, and oversee the long-term strategy of the Company.

The non-executive directors shall furthermore have separate periodic meetings with the external auditor and heads of the internal audit group, compliance and risk functions, without the executive directors present to ensure that proper checks and balances are in place within the Company. The meetings shall be chaired by the lead independent director.

In this regard, only the non-executive directors of the Company were present at the regular meeting of the Board on May 9, 2018. Mr. Francisco S. Alejo III, who at the time was the only executive director of the Company, was also not in attendance during the Audit Committee meeting held immediately preceding the Board meeting on the same day, at which meeting the heads of the internal audit group, compliance and risk functions were present. The lead independent director, Mr. Carmelo L. Santiago, also the Chairman of the Audit Committee at the time, presided over such meeting.

The Chairman, Lead Independent Director and the President

The Chairman of the Board is non-executive Director Eduardo M. Cojuangco, Jr. Considering that the Chairman is not an independent director, the Board appointed Mr. Carmelo L. Santiago as lead director from among the Company's independent directors, who shall have authority to lead the Board in cases where management has clear conflicts of interest.

The Chairman is not the current or immediate past Chief Executive Officer of the Company. The President and Chief Executive Officer of the Company is Mr. Ramon S. Ang. He was appointed as such by the Board, vice Mr. Francisco S. Alejo III, on July 5, 2018 upon the consolidation of the food and beverage businesses of SMC under the Company effective June 29, 2018. The Chairman and President are held by two separate individuals with their respective roles clearly defined in the Company's Manual on Corporate Governance and By-laws, to ensure independence, accountability, and responsibility in the discharge of their duties. The performance of the President is assessed by the Board on an annual basis. The annual compensation of the President and the top four senior executives of the Company are provided in the Definitive Information Statement distributed to shareholders prior to the ASM. The President attended the last two ASMs of the Company. The Chairman attended the 2018 ASM, but the Vice Chairman acted as Chairman at the ASM of the Company two years ago.

The Corporate Secretary

To assist the directors in the discharge of their duties, the directors have access to the Corporate Secretary and Assistant Corporate Secretary, who both serve as legal counsel to the Board of Directors. The Corporate Secretary, Atty. Alexandra B. Trillana, likewise the Compliance Officer of the Company, holds the position of Vice President. She keeps the Board updated on relevant statutory and regulatory developments. The Corporate Secretary communicates with the Board, management, the Company's shareholders, and the investing public. In this regard, the Corporate Secretary assists the Chairman in the preparation of the agenda of the Board and shareholder meetings, taking into account the suggestions of the President, management and other directors.

Board Performance

The Board holds regular meetings on a quarterly basis to review and approve the Quarterly Report of the Company (or SEC Form 17-Q), including financial statements as at and for the quarter just ended, and an organizational meeting immediately following the adjournment of the ASM for the election of the Company's key corporate officers and senior management led by the President of the Company and the heads of the other control functions (i.e., Chief Finance Officer, Compliance Officer, internal audit group head), Board Committee members, lead independent director, and trustees of the Company's retirement fund, as well as the designation of the Company's authorized signatories and signing limits for banking and other corporate transactions. Board meetings of the Company are scheduled before the beginning of the year. Particularly, during the last regular meeting of the year, the Board sets the dates for its regular and organizational meetings for the succeeding year. The Board may also hold special meetings for the transaction of such other business as shall properly come before it, such as to approve the declaration of dividends among others, in accordance with the Company's By-laws. Notices of Board and Committee meetings, including the agenda and other board papers or materials for the meetings, are prepared and provided at least five working days in advance of the Board or Committee meeting, as the case may be, in order for the directors to review and study such meeting materials. Further, the directors ask the necessary questions or seek clarifications and explanations if called for during the meetings.

In 2018, the Board held nine meetings. Set out below is the record of attendance of the directors in these meetings.

DIRECTOR	Date of Board Meeting, All in Year 2018								
	Feb 1	Mar 14	May 9	May 11	Jul 5	Aug 8	Sep 12	Oct 8	Nov 13
Eduardo M. Cojuangco, Jr. (Chairman)	Present	Present	Present	Present	Present	Present	Absent	Present	Present
Ramon S. Ang	Present	Present	Present	Present	Present	Present	Present	Present	Present
Francisco S. Alejo III	Present	Present	Absent	Present	Present	Present	Present	Present	Present
Menardo R. Jimenez	Absent	Present	Present	Present	Absent	Present	Present	Present	Present
Mario C. Garcia[1]	Present	Present	Present	N/A	N/A	N/A	N/A	N/A	N/A
Rolando L. Macasaet[2]	Present	Absent	Present	Present	Present	Present	N/A	N/A	N/A
Romela M. Bengzon[3]	N/A	N/A	N/A	Present	Absent	Present	Absent	Absent	Present
Carmelo L. Santiago (Independent Director)	Present	Present	Present	Present	Present	Present	Present	Present	Present
Minita V. Chico-Nazario (Independent Director)	Present	Present	Present	Present	Absent	Present	Present	Present	Present
Ricardo C. Marquez (Independent Director)	Absent	Present	Present	Present	Present	Present	Present	Present	Present
Cirilo P. Noel[4] (Independent Director)	N/A	N/A	N/A	N/A	N/A	N/A	Present	Absent	Present

N/A - Not applicable
[1] Term up to May 11, 2018
[2] Resigned effective August 28, 2018
[3] First elected May 11, 2018
[4] First elected September 12, 2018

Also in the year 2018, the stockholders held two special meetings on January 18 and September 12, in addition to the ASM on May 11. The attendance of the directors in these meetings is as follows:

DIRECTOR	Date of Stockholders' Meeting, All in Year 2018		
	Jan 18	May 11	Sep 12
Eduardo M. Cojuangco, Jr. (Chairman)	Absent	Present	Absent
Ramon S. Ang	Absent	Present	Present
Francisco S. Alejo III	Present	Present	Present
Menardo R. Jimenez	Present	Present	Present
Mario C. Garcia[1]	Present	N/A	N/A
Rolando L. Macasaet[2]	Present	Present	N/A
Romela M. Bengzon[3]	N/A	Present	Absent
Carmelo L. Santiago (Independent Director)	Absent	Present	Present
Minita V. Chico-Nazario (Independent Director)	Present	Present	Present
Ricardo C. Marquez (Independent Director)	Present	Present	Present
Cirilo P. Noel[4] (Independent Director)	N/A	N/A	Present

At the Board meeting on November 13, 2018, self-rating forms, together with the policy and procedures, including criteria, for the annual performance assessment of the Board, were distributed to the directors for them to accomplish. Such annual assessment is intended to appraise and improve the performance of the Board as a governing unit, the individual directors including the Chairman, the different Board Committees, as well as the President, in accordance with the Company's Manual on Corporate Governance. The Board was given until December 7, 2018 to return the accomplished self-rating form to the office of the Compliance Officer, for tabulation of results and reporting at a succeeding Board meeting. In this regard, the results of the assessment for the year 2017 were deliberated on by the Board at its meeting on May 9, 2018.

The Company has made such self-rating form available at its corporate website for viewing.

Also at the meeting on November 13, 2018, the last Board meeting for the year, as part of the nomination and election process for directors, which the Board assessed as effective, the Company disclosed the date of the 2019 ASM and invited stockholders who wish to nominate candidates to the Board, to submit the names of their nominees not later than January 31, 2019 to the Corporate Secretary at the 22nd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, for the consideration of the Chairman and the Corporate Governance Committee.

Board Committees

To assist the Board in ensuring strict compliance with the principles of good corporate governance, the Board created several Committees.

Executive Committee. The Executive Committee is currently composed of four directors that include the Chairman of the Board and the President. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee is tasked to help and assist the officers of the Company in the management and direction of the affairs of the Company. It acts within the powers and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

Corporate Governance Committee. The Corporate Governance Committee is currently composed of four non-executive directors, three of whom are independent directors. Retired Justice Minita V. Chico-Nazario is the Chairperson of the Committee.

The Corporate Governance Committee is tasked to ensure the Company's compliance and proper observance of corporate governance principles and practices. It oversees the implementation of the Company's corporate governance framework and the performance evaluation of the Board and its Committees, as well as top management, to ensure that management's performance is at par with the standards set by the Board. The Committee advises the Board on the establishment of a formal and transparent procedure for developing a policy on remuneration of directors and senior management that is aligned with the long term interests of the Company, ensuring that compensation is consistent with the Company's culture and strategy, as well as the business environment in which it operates. It likewise reviews and oversees the implementation of policies relating to business interest disclosures and conflict of interest, appointments and promotions of officers, and succession planning. Further, the Committee determines the nomination and election process for the Company's Board of Directors, and screens and shortlists candidates to the Board in accordance with the qualifications and disqualifications for directors defined in the Company's By-laws, Manual on Corporate Governance, applicable laws and regulations.

In 2018, the Corporate Governance Committee held four meetings. In these meetings, the Committee deliberated on the first Integrated Annual Corporate Governance Report (I-ACGR) of the Company for submission to the SEC and PSE within the prescribed period; the updated Policy on Conflict of Interest of the Company and its food subsidiaries; and the creation of the following key officer positions in the Company: (i) Chief Operating Officer for Food, (ii) Chief Operating Officer for Beer, and (iii) Chief Operating Officer for Liquor, and agreed to endorse the said I-ACGR, policy and officer positions to the Board for approval. The Committee also discussed the appointments and promotions of employees to officers of the Company's food subsidiaries.

The full text of the Corporate Governance Committee Charter may be viewed at the Company's corporate website.

Audit Committee. The Audit Committee is currently composed of four members who are all non-executive directors, three (or a majority) of whom are independent directors. All Committee members have relevant background, knowledge, skills or experience in the areas of accounting, auditing and finance. Independent Director Cirilo P. Noel was appointed Chairman of the Committee on February 6, 2019. He is not the Chairman of any other Board Committee. Independent Director Carmelo L. Santiago was the previous Chairman of the Committee. He attended the last two ASMs of the Company.

The Audit Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both the internal financial management manual and pertinent

accounting standards, including regulatory requirements, elevating to international standards the accounting and auditing processes, practices and methodologies of the Company. The Committee performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management.

The Audit Committee has primary responsibility for recommending the appointment and removal of the Company's external auditor.

The Audit Committee held four meetings in 2018. In these meetings, the Committee reviewed, affirmed the truth and fairness of the financial statements and reports of the Company, and approved the Company's 2017 Consolidated Audited Financial Statements as prepared by the external auditor, as well as the Company's unaudited financial statements for the first, second and third quarters of the year 2018. Further, the Audit Committee monitored, reviewed and confirmed the sufficiency and effectiveness of the Company's internal control systems on the basis of the regular reports of its internal audit group. The Committee also endorsed for the approval of the Board, the delegation to management of the authority to sign, execute and deliver all documents on behalf of the Company, as well as take all other actions in order for the Company to comply with the minimum public ownership requirement for publicly listed companies; the 2018 Audit Plan of external Auditor R.G. Manabat & Co. for the Company and its subsidiaries; the revised cash dividend policy of the Company; and the 2018 Internal Audit Plan for the Company and its food subsidiaries.

The Compliance Officer, on the other hand, kept the Audit and Corporate Governance Committees updated on the latest developments in regulatory and corporate governance requirements, as the case may be, by means of reports during Committee meetings.

In order to assess and improve the performance of the Audit Committee, self-assessment worksheets were distributed to the members of the Committee at the meeting on November 9, 2018 for them to accomplish pursuant to the Audit Committee Charter previously adopted by the Committee and approved by the Board, in compliance with SEC guidelines. The Committee members were given until December 7, 2018 to return the accomplished self-assessment worksheets to the office of the Compliance Officer, for tabulation of results and reporting at the next Audit Committee meeting. In this regard, the results of the assessment for the year 2017 were deliberated on by the Committee at its meeting on May 9, 2018.

The Company has made such self-assessment worksheet available at its corporate website for viewing.

The full text of the Audit Committee Charter may be viewed at the Company's corporate website.

Related Party Transactions Committee. The Related Party Transactions Committee is currently composed of four members, all of whom are non-executive and independent directors. Independent Director Carmelo L. Santiago was appointed Chairman of the Committee on February 6, 2019. Independent Director Minita V. Chico-Nazario was the previous Chairperson of the Committee.

The Related Party Transactions Committee is tasked to review all material related party transactions ("RPTs") of the Company to make certain that these are entered into, as a matter of policy, on an arms-length basis and at market rates. It shall evaluate existing relations between and among businesses and counterparties to ensure the identification of all related parties, including changes in relationships of counterparties, and that RPTs are monitored. The Committee is responsible for ensuring that appropriate disclosures are made relating to the Company's RPT exposures and policies on conflict of interest. It shall also oversee the periodic review of RPT policies and procedures.

In 2018, the Related Party Transactions Committee held two meetings. At the first meeting, the Committee deliberated on the proposed Related Party Transactions Policy of the Company and agreed to endorse the same to the Board for approval. At the second meeting, the Committee deliberated on the assignment by the Company of its shareholding in its wholly-owned subsidiary RealSnacks Mfg. Corp. to another wholly-owned subsidiary San Miguel Foods, Inc. and agreed to endorse the same to the Board for approval.

The full text of the Related Party Transactions Committee Charter may be viewed at the Company's corporate website.

Board Risk Oversight Committee. The Board Risk Oversight Committee is currently composed of five non-executive directors, three (or a majority) of whom are independent directors. Independent Director Ricardo C. Marquez is the Chairman of the Committee. He is not the Chairman of any other Board Committee.

The Board Risk Oversight Committee is responsible for the oversight of the Company's enterprise risk management ("ERM") system to ensure its functionality and effectiveness. The Committee is tasked to develop and oversee the implementation of a formal ERM plan and annually review and advise the Board of the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework and external economic environment. It shall also assess the probability of each identified risk becoming a reality and estimate its possible financial impact and likelihood of occurrence, and oversee management's activities in identifying, monitoring, assessing and managing credit, market, liquidity, operational, legal and other risk exposures of the Company.

In 2018, the Board Risk Oversight Committee held one meeting, at which the Committee deliberated on the Enterprise Risk Management Roadmap of the Company for its food subsidiaries and agreed to endorse the same to the Board for approval.

The full text of the Board Risk Oversight Committee Charter may be viewed at the Company's corporate website.

Board Committee Members

The members of each Board Committee and their attendance in Board Committee meetings in 2018 are set out in the table below.

EXECUTIVE COMMITTEE	Date of Committee Meeting, All in the Year 2018
Eduardo M. Cojuangco, Jr. Chairman	No Meetings Held
Ramon S. Ang	
Francisco S. Alejo III	
Minita V. Chico-Nazario Independent Director	

AUDIT COMMITTEE	Mar 14	May 9	Aug 8	Nov 7
Carmelo L. Santiago Chairman Independent Director	Absent	Present	Present	Present
Menardo R. Jimenez	Present	Present	Present	Present
Minita V. Chico-Nazario Independent Director	Present	Present	Present	Present
Ricardo C. Marquez Independent Director	Present	Present	Present	Present
Cirilo P. Noel* Independent Director	N/A	N/A	N/A	Present
Ferdinand K. Constantino Advisor	Present	Present	Present	Present

N/A - Not applicable
* First elected Sept. 12, 2018

CORPORATE GOVERNANCE COMMITTEE	Mar 14	May 9	Jul 5	Aug 8
Minita V. Chico-Nazario Chairman Independent Director	Present	Present	Absent	Present
Carmelo L. Santiago Independent Director	Absent	Present	Present	Present
Ricardo C. Marquez Independent Director	Present	Present	Present	Present

RELATED PARTY TRANSACTIONS COMMITTEE	Mar 14	Aug 8
Minita V. Chico-Nazario Chairman Independent Director	Present	Present
Carmelo L. Santiago Independent Director	Absent	Present
Ricardo C. Marquez Independent Director	Present	Present
Menardo R. Jimenez	Present	Present
Cirilo P. Noel* Independent Director	N/A	N/A
Ferdinand K. Constantino Advisor	Present	Present

N/A - Not applicable
* First elected Sept. 12, 2018

BOARD RISK OVERSIGHT COMMITTEE	Mar 14
Ricardo C. Marquez Chairman Independent Director	Present
Carmelo L. Santiago Independent Director	Absent
Menardo R. Jimenez	Present

Board Remuneration

The By-laws of the Company provides that the members of the Board shall 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 such purpose.

The Company provides each director with a reasonable per diem of P10,000 for each Board and Board Committee meeting attended by such director. The stockholders have not fixed any fee in the last three years, and thus other than this allowance, there are no arrangements pursuant to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, by the Company for services rendered by such directors.

In the year 2018, the Company paid a total of P1,270,000 in per diem allowances to the Board of Directors, as follows:

Executive Director	P 220,000
Non-executive Directors (other than Independent Directors)	410,000
Independent Directors	640,000
Total	P1,270,000

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to both external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance and Audit Committee Charter.

External Auditor

The external auditor of the Company, whose main function is to facilitate the environment of good corporate governance as reflected in the Company's financial records and reports, is selected and appointed by the shareholders upon the recommendation of the Board after consultations with the Audit Committee. 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. The external auditor conducts an independent annual audit on the Company's financial performance and financial position and provides an objective opinion on the reasonableness of such records and reports.

In 2018, the SEC-accredited accounting firm R.G. Manabat & Co. ("RGM&Co.") served as external auditor of the Company. The Board of Directors will again nominate RGM&Co. to be the Company's external auditor for fiscal year 2019. Representatives of RGM&Co. are expected to be present at the ASM to respond to relevant questions and assist in the counting of votes cast during the meeting. They also have the opportunity to make a statement if they so desire.

In instances where the external auditor suspects fraud or error during their conduct of audit, they are required to disclose and express their findings on the matter.

Audit fees billed for the regular audit services rendered by RGM&Co. to the Company in connection with the Company's annual financial statements and other statutory and regulatory filings for 2018 amounted to approximately P1.6 Million. No non-audit services were rendered by RGM&Co. to the Company in 2018.

Internal Audit

Due to the magnitude of its operations, the internal audit of the Company and its subsidiaries is carried out by three separate and independent internal audit groups – one for the Company and its Food Division (comprised of the Company's food subsidiaries), one for the Company's Beer Division (comprised of the Company's beer subsidiaries), and another for the Company's Liquor or Spirits Division (comprised of the Company's spirits subsidiaries). While the internal audit group of the Company and its Food Division reports to the Company's Audit Committee, the internal audit groups of the Beer Division and the Spirits Division report to the Audit Committees of San Miguel Brewery Inc. and Ginebra San Miguel Inc., respectively. These internal audit groups help the organization accomplish its objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes. The groups provide an independent objective assurance that key organizational and procedural controls of the Company and its subsidiaries are effective, appropriate, and strictly followed.

The head of the internal audit group of the Company and its Food Division, Ms. Ophelia L. Fernandez, who functionally reports directly to the Audit Committee, is appointed by the Board of Directors upon the endorsement of the Audit Committee, and any change to such head will also require the endorsement of the Audit Committee prior to the approval of the Board. The internal audit group head oversees and is responsible for the internal audit activity of the Company and its Food Division, including that portion that is outsourced to third party service providers.

The internal audit groups of the Company and its subsidiaries identify and evaluate significant risk exposures and contribute to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the Company's businesses maintain effective controls in their responsibilities and functions.

Regular audits of the business of the Company, its subsidiaries, and support units are conducted according to an annual audit program approved by the Audit Committee. Special audits are also undertaken when and as necessary.

In March 2017, upon the endorsement of the Audit Committee, the Board approved the Charter of the internal audit group of the Company and its Food Division. The full text of this Internal Audit Group Charter may be viewed at the Company's corporate website.

RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

Due to its extensive operations, the Company faces both financial and non-financial risks on a daily basis. Examples of these risks are market risks, environmental risks, and socio-cultural risks. To manage these risks, the Company has established policies to identify and analyze the key risks faced by the Company and its subsidiaries, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies, systems and processes, as well as practices, are continuously reviewed to reflect changes in market conditions and the organization's activities. The Food Division, in particular, 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.

Risk management functions are currently performed at the management committee level of each operating subsidiary of the Company, as well as assumed by the Chief Operating Officers and heads of the corporate service units of each Division in the organization. Further, every manager is tasked to ensure compliance with all operational and financial controls in his/her area of responsibility and to implement internal controls as part of the total system to achieve the goals of the group. Managers conduct regular evaluation of existing policies, systems and procedures to ensure that these remain relevant and effective to the current operating environment. Management also gives prompt and cooperative consideration to recommended improvement measures made by independent internal or external audit groups.

At the Board level, for the year 2018, the Audit Committee maintained oversight functions on internal controls, risk management and corporate governance compliance. For the year ended December 31, 2018, the Audit Committee has confirmed the adequacy of the Company's internal controls and risk management system. (See also Audit Committee Report in page 56 of this Annual Report.)

DISCLOSURE AND TRANSPARENCY

The Company adheres to the principle of full corporate disclosure and transparency regarding its financial condition, operations and state of corporate governance.

Directors are required to disclose their business interests, interests in transactions that may come before the Company, or any other conflict of interests. In this regard, directors accomplish a Full Business Interest Disclosure (FBID) form on an annual basis as part of the process to determine whether they continue to have all the qualifications and none of the disqualifications to be a director of the Company pursuant to the Company's By-laws and Manual on Corporate Governance. The refusal to fully disclose the extent of his/her business interest or comply with disclosure requirements as required under the Securities Regulation Code and its Implementing Rules and Regulations is a ground for the temporary disqualification of a director.

Ownership Structure

As of December 31, 2018, SMC owns and controls 88.76% of the outstanding capital stock of the Company entitled to vote.

The top 20 shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors, and key officers, are disclosed annually in the Company's Definitive Information Statement distributed to shareholders prior to the ASM. See also Securities Dealing; Trading in the Company's Shares below.

The aggregate number of shares owned of record by the Chairman, President, key officers and directors as a group as of December 31, 2018 is approximately 0.0043% 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, 2018 is approximately 0.0043% of the Company's outstanding capital stock.

Financial Reporting

The Company provides the investing community with regular updates on its operating performance and other financial information through adequate and timely disclosures filed with the SEC and Philippine Stock Exchange (PSE).

The Company's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with International Accounting Standards. Consolidated audited financial statements for the latest completed financial year are submitted to the SEC and PSE not later than the prescribed deadline and are distributed to the shareholders well in advance of the ASM.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with relevant regulations. The results are also presented to financial and investment analysts, as well as the press, through quarterly analysts' briefings and press statements, as the case may be. These disclosures are posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company timely discloses via the appropriate channels all market-sensitive information, if any, such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets, and related party transactions that may affect share price performance.

Securities Dealing; Trading in the Company's Shares

The Company exerts efforts for its directors and officers to comply with the requirement under the Securities Regulation Code, to disclose any change in their shareholdings in the Company as a result of any purchase, sale or any other dealing that relates to the Company's shares.

The following table sets out the shareholdings of the directors and key officers of the Company as of the start of the year, and as of the year ended December 31, 2018.

Name of Director/ Key Officer	Number of Shares as of December 31, 2017	Number of Shares as of December 31, 2018	% of Capital Stock
Eduardo M. Cojuangco Jr.	1 common share (Direct)	10 common shares (Direct)*	0%
Ramon S. Ang	1 common share (Direct)	10 common shares (Direct)*	0%
Francisco S. Alejo III	1 common share (Direct); 23,000 common shares (Indirect); 10,000 preferred series 2 shares (Indirect)	10 common shares (Direct); 230,000 common shares (Indirect)*; 10,000 preferred series 2 shares (Indirect)	0%
Menardo R. Jimenez	1 common share (Direct)	10 common shares (Direct)*	0%
Mario C. Garcia	1 common share (Direct)	N/A	0%
Ma. Romela M. Bengzon**	N/A	10 common shares (Direct)*	0%
Carmelo L. Santiago	1 common share (Direct)	10 common shares (Direct)*	0%
Minita V. Chico-Nazario	1 common share (Direct)	10 common share (Direct)*	0%
Rolando L. Macasaet***	1 common share (Direct)	N/A	0%
Ricardo C. Marquez	1 common share (Direct)	10 common shares (Direct)*	0%
Cirilo P. Noel****	N/A	10 common shares (Direct)	
Roberto N. Huang*****	N/A	10 common shares (Direct); 3,500 preferred series 2 shares (Indirect)	0%
Emmanuel B. Macalalag*****	N/A	None	0%
Ferdinand K. Constantino*****	N/A	10 common shares (Direct); 8,100 preferred series 2 shares (Indirect)	0%
Ildefonso B. Alindogan*****	N/A	None	
Kristina Lowella I. Garcia******	N/A	None	
Zenaida M. Postrado*******	500 common shares (Indirect); 10,000 preferred series 2 shares (Indirect)	N/A	0%
Rita Imelda B. Palabyab*******	2,000 preferred series 2 shares (Indirect)	N/A	0%
Florentino C. Policarpio*******	None	N/A	
Raul B. Nazareno*******	None	N/A	0%
Oscar R. Sañez*******	8,500 common shares (Indirect); 4,000 preferred series 2 shares (Indirect)	N/A	0%
Jennifer T. Tan*******	1,500 preferred series 2 shares (Indirect)	N/A	0%
Rodolfo M. Abaya*******	None	N/A	0%
Helene Z. Pontejos*******	2,000 preferred series 2 shares (Indirect)	N/A	0%
Alexandra B. Trillana	1,000 preferred series 2 shares (Indirect)	1,000 preferred series 2 shares (Indirect)	0%

N/A - Not applicable
* The increase in number of shares is a result of the reduction of par value of common shares from P10/share to P1/share
** First elected as director on May 12, 2017
*** Resigned as director on August 28, 2018
**** First elected as independent director on September 12, 2018
***** First appointed as key officer effective July 5, 2018
****** First appointed as key officer effective August 1, 2018
******* Resigned as key officer effective July 5, 2018

The Company has adopted a Securities Dealing (or insider trading) policy that regulates the acquisition and disposal of the Company's shares by its directors, officers and key employees, and the use and disclosure of price-sensitive information by such persons.

Under the policy, directors, officers and employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the Company's securities prior to the disclosure of such information to the public. The policy likewise prescribes the number of days before and after public disclosure of structured and non-structured reports (the "blackout period"), during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information, is not allowed.

The policy was updated in January 2017 to comply with the New CG Code requiring all directors and officers to disclose or report to the Company any dealings in the Company's shares within three business days from the transaction.

The Compliance Officer regularly sends reminders on compliance with the policy, to the directors, officers and key employees of the Company prior to the start of every blackout period as it relates to structured reports.

The full text of the policy may be found at the Company's corporate website.

SHAREHOLDER RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Shareholder Meetings

The Company's By-laws provide that its ASM will be held on the first Wednesday of June of every year. Stockholders are informed at least 30 days before the scheduled date of general meetings.

In this regard, the Company first disclosed on November 9, 2017, the date of the 2018 ASM (held on May 11, 2018). On March 14, 2018, the Company disclosed the Agenda, time and place of the 2018 ASM, record date for stockholders entitled to vote at said meeting, period when the stock transfer books of the Company will be closed, deadline for submission of proxies and date of validation of proxies. The Notice and Definitive Information Statement to the 2018 ASM, including the date, time and place for the validation of proxies, as well as rationale and explanation for each relevant Agenda item requiring shareholder approval, were sent to the stockholders on or around April 10, 2018, more than 30 days before the ASM.

For the 2019 ASM, the Company disclosed on November 13, 2018 that the date of the 2019 ASM will be on June 5, 2019, in accordance with the Company's amended By-laws approved by the stockholders on September 12, 2018. The disclosure invited stockholders who wish to propose the inclusion of additional items to the usual Agenda of the ASM and/or to nominate candidates to the Board, to submit their proposals not later than January 31, 2019 to the Corporate Secretary at the 22nd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, for the consideration of the Chairman and the appropriate Board Committee/s.

Voting Rights and Voting Procedures

Each common share in the name of the shareholder entitles such shareholder to one vote that may be exercised in person or by proxy at shareholder meetings, including the ASM. Common shareholders, even minority or non-controlling shareholders, have the right to nominate, elect, remove, and replace directors, as well as vote on certain corporate acts, including decisions concerning significant transactions, in accordance with the Revised Corporation Code and other applicable laws and regulations. In such cases, the Company provides the rationale and explanation for each agenda item that requires shareholders' approval in the Definitive Information Statement distributed prior to the ASM.

Preferred shareholders have the right to vote on matters involving certain fundamental corporate changes in accordance with Section 6 of the Revised Corporation Code. They also enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

Voting procedures on matters presented for approval to the stockholders in the ASM are provided in the Definitive Information Statement.

Pre-emptive Rights

Unless denied in its Articles of Incorporation or an amendment thereto, stockholders have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings.

On November 3, 2010 and January 18, 2018, the stockholders approved to amend the Articles of Incorporation of the Company to deny pre-emptive rights to the issuances of preferred and common shares, respectively. Such amendments to the Articles of Incorporation were approved by the SEC on December 23, 2010 and March 23, 2018, respectively.

Right to Information

Shareholders and prospective investors may request relevant information on the Company, including copies of periodic reports filed with the regulatory authorities and disclosures via the PSE, through the Investor Relations group of the Company headed by Ms. Kristina Lowella I. Garcia, whose contact details are provided below. These reports, disclosures, press releases and statements, as well as investor and analyst briefing materials, are also posted on the Company's corporate website.

Ms. Kristina Lowella I. Garcia
San Miguel Food and Beverage, Inc. Investor Relations
7th Floor, SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City
Telephone: (632) 632-3417; Fax (632) 632-3658
Email: kigarcia@sanmiguel.com.ph

Dividends and Dividend Policy

Shareholders are entitled to receive dividends as the Board of Directors may, in its sole discretion, declare from time to time. However, the Company is required, subject to certain exceptions allowed under the law, to declare dividends when its retained earnings equal or exceed its paid-up capital stock.

Dividends declared at the discretion of the Board 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 company and subsidiary level and other factors the Board may deem relevant.

Since August 8, 2018, the cash dividend policy of the Company has been to entitle holders of its common shares to receive annual cash dividends of up to 60% of the prior year's recurring net income. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. 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 perpetual series 2 preferred shares offer of the Company in February 2015 (the "FBP2 Shares"), as and if dividends are declared by the Board, dividends on the FBP2 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 2016, the Company paid out cash dividends of P5.70 per common share and P56.56900 per FBP2 Share.

In 2017, the Company paid out cash dividends of P6.00 per common share and P56.56900 per FBP2 Share.

In 2018, the Company paid out cash dividends of P3.00 per common share and P56.56900 per FBP2 Share.

As a matter of and pursuant to its policy, the Company paid out the dividends for its common shares within 30 days after being declared and approved by the Board, as follows:

Date of Declaration and Approval	Amount	Date of Payment
February 1, 2018	P2.00 per share	March 1, 2018
May 9, 2018	P0.20 per share	June 8, 2018
August 8, 2018	P0.40 per share	September 6, 2018
October 8, 2018	P0.40 per share	October 31, 2018

STAKEHOLDER RELATIONS

The Company exercises transparency when dealing with shareholders, customers, employees, creditors, suppliers and other trade partners. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually beneficial relationships.

The Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the Company to grow its business, while contributing to the advancement of the society where it operates. Accordingly, the Company exerts efforts to interact positively with the communities in which it operates.

Complete contact details of the Company's various business units, through which its stakeholders can properly address their concerns, are found in the Company's corporate website.

Shareholder and Investor Relations

The investor relations program of the Company aims to effectively communicate the organization's performance and plans to the capital market, as well as develop a long term relationship of trust with stakeholders, using the discipline in finance, communication and marketing, and manage the content and flow of the group's information and disclosures to the financial markets.

Among others, the communications strategy of the Company endeavors to encourage shareholders, including minority shareholders and institutional investors, to attend and participate in the ASM of the Company.

The Company communicates with the investing community and keeps shareholders informed through timely disclosures via the PSE, reports filed with the SEC, stockholder meetings, regular quarterly briefings, investor conferences, press releases and statements, its corporate website, emails and telephone calls. The Company's disclosures and other reports submitted to the SEC and PSE are available for download from its corporate website.

The Investor Relations Group of SMC organizes quarterly briefings on SMC and its consolidated group of companies, including the Company, for investment and financial analysts. Invitations and materials for such briefings are posted on the Company's website. All interested persons may attend these briefings. In the year 2018, the following were the analyst and media briefings conducted:

DATE	AGENDA
March 15, 2018	2017 Full Year Results
May 10, 2018	2018 First Quarter Results
August 9, 2018	2018 First Semester Results
November 13, 2018	2018 Third Quarter Results

The Company, through its own Investor Relations Group, also holds briefings and meetings with investment and financial analysts from time to time, as and when necessary or requested by said analysts.

Suppliers/Contractors, Creditors and Customers

The Company recognizes the importance of its other stakeholders, such as its customers, suppliers or contractors and creditors, in the creation and growth of value, stability and long-term competitiveness of its businesses. The Company is committed to delivering products and services that delight and inspire loyalty in its customers. The Company adheres to a stringent selection process for its suppliers and contractors. A dedicated team of buyers in the Procurement Groups of each of its Food, Beer and Spirits Divisions is tasked with the important role of canvassing, assessing bids and accrediting potential suppliers.

The Company also recognizes the value of working hand-in-hand with its suppliers and contractors, to help them grow and assure them of reasonable and fair returns. At the same time, the Company is mindful that it chooses and maintains only those suppliers and contractors who share the same core beliefs as the Company, and who uphold the values of integrity and honor in their day-to-day dealings. Thus, the principles embodied in the Company's Code of Ethics expressly apply to the Company's business partners, such as its suppliers, contractors and customers.

The Company honors its obligations to its suppliers and creditors, including payments in accordance with agreements.

MANAGEMENT

Each of the Food, Beer and Spirits Divisions of the Company has its own Chief Operating Officer and management team primarily responsible for the day-to-day operations and business of such Division. The annual compensation of the President and the senior key executives of the Company, as well as their shareholdings in the Company, are set out in the Definitive Information Statement distributed to shareholders prior to the ASM.

EMPLOYEE RELATIONS, HEALTH, SAFETY AND WELFARE

The Company is committed to its employees' safety, health and welfare, and to nurture their individual capabilities.

Programs are in place to ensure the safety of its workers. These programs include the elimination of occupational hazards in the workplace, provision of protective wear and/or equipment, proper training in the handling and use of machinery and materials, safety reminders and other measures that may be necessary to maintain their safety. Employees are protected from undue exposure to chemicals, biological and physical hazards, and in the event exposure to these are inevitable, safety information is provided to educate, train and safeguard employees.

The Company identifies, assesses and prepares for potential emergency situations in the workplace, and minimizes their impact through prevention and readiness to implement emergency plans and response procedures. In case such an emergency occurs, the proper authorities are informed immediately.

To promote sustainable development, the Company complies with all environmental regulations applicable to every step in its value chain. All required environmental permits, licenses, authorizations, registrations and clearances are obtained and their operational and reporting requirements followed.

The Company has systems in place to ensure the safe handling, movement, recycling, reuse, storage or release, and management of waste, air emissions, waste water discharges and hazardous materials. Any waste, waste water or emissions with the potential to adversely impact human or environmental health are appropriately managed, controlled and treated prior to release into the environment.

The Company provides comprehensive health care services directed at prevention of disease, protection from health hazards and maintenance of health. Programs are implemented to identify personal risks to health and to detect diseases in the early and most treatable stages.

The Company is committed to improve the quality of life of its employees through healthy living and piloting of wellness initiatives to encourage employees to maintain active and healthy lifestyles. The Company provides regular information to assist employees in making better decisions regarding their health, as well as the health of their dependents.

The Company is committed to promote a work place that is free from drug abuse as it is detrimental to the health, safety and work performance of employees and poses risks to operations and product quality.

The Company strives to protect its employees from harassment of any form. The Company provides a workplace free of harassment, discrimination, harsh and inhumane treatment. Any abusive behavior such as sexual harassment, corporal punishment, mental or physical coercion, or verbal abuses or threats among workers is not tolerated. Discrimination for reasons of race, age, gender, gender-orientation, ethnicity, disability, religion, political affiliation, union membership or marital status is not condoned. The Company actively implements mechanisms for dealing with such occurrences and ensures that it will act justly, swiftly and decisively in addressing such complaints.

The Company respects individuals in a manner consistent with the rights to privacy and data protection. Information about people are used appropriately for necessary business purposes and is protected from misuse to prevent undue harm to individuals such as discrimination, stigmatization or other damage to reputation and personal dignity, impact on physical integrity, fraud, financial loss or identity theft.

The Company's performance management framework ensures that its personnel's performance is aligned with the standards set by the Board and senior management. The Company adopts a performance management system and salary review program wherein employees are appraised annually on the basis of achievement of specific objectives and key performance indicators, i.e., financial results of the business, business/functional priorities, internal processes and learning and growth, as well as participation in centerpiece projects and critical incidents. Bonuses are determined in accordance with SMC's Business Performance and Annual Incentive Programs, which tracks attainment of the San Miguel Group's earnings targets. The Company is also part of the Long Term Incentive Program (LTIP) of SMC for the San Miguel Group. The LTIP is a variable reward program that provides key executives with financial incentives that are contingent to the achievement of the Group's medium to long range business goals, sustained growth, expansion, and continued financial success.

Career advancement and improvement are provided by the Company through various training programs and seminars. In particular, in 2010, the Company launched the San Miguel Pure Foods University, which is an institution of higher learning that aims to synergize all training initiatives of the Food Division and provide employees a formal training ground specific to their functions and geared towards their professional development.

Majority of the subsidiaries of the Company have funded, non-contributory defined benefit retirement plans covering all of their permanent employees.

Each employee is provided with an Employee Handbook and Code of Ethics containing the house rules, policies and guidelines setting out the duties and responsibilities of an employee of the Company.

Through internal newsletters and e-mail news briefs facilitated by the Corporate Affairs and Human Resources groups, as well as SMC's Corporate Affairs Office, employees are updated on any one-time benefits that may be granted by senior management, significant events and programs, as well as material developments within the organization. In particular, the Food Division issues internal newsletters which document the Division's various activities and efforts to address the needs and interests of its employees and other stakeholders, including customers, suppliers, contractors and communities.

CORPORATE MISSION AND VISION

In the first quarter of 2010, the Company formally launched its corporate mission where it determined its long-term growth objectives. The Company has further defined its vision of "nourishing and nurturing families worldwide" and its core purpose of Malasakit, which it espouses in each of its endeavors. This is part of the transformational programs that the Company has undertaken in order to reach its goals.

The Board reviews and approves the corporate mission and vision of the Company every three years or after such period as it deems necessary, or upon the recommendation of management. The Board last reviewed and approved the vision and mission of the Company during its meeting on February 2, 2017.

CORPORATE OBJECTIVES AND STRATEGIES

The Board of Directors oversees the development, review and approval of the Company's business objectives and strategy, as well as monitors the implementation of such objectives and strategy. In pursuit of its long-term growth objectives, the Company continues to strive to achieve and maintain market leadership in the various categories in which it is present. In its strategy to further shift from commodities to value-added products where margins are more stable, the Company aims to launch several new innovative products in the coming years, to cater to the changing tastes of its consumers. Recognizing the need to constantly improve and adapt, the Company is poised to start operations of several new plants and facilities to be in a better position to respond to the demands of its customers.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is vitally important to our Company, owing to our roots as a subsidiary of SMC, a conglomerate deeply committed to far-reaching social and environmental initiatives. Our policies ensure that we adhere to the highest standards of ethical behavior, environmental sustainability, and commitment to our communities.

CODE OF ETHICS, WHISTLEBLOWING AND OTHER POLICIES

The Company adheres to the SMC Code of Ethics and Conduct that describes fundamental standards of conduct and values consistent with the principles of good governance and business practices, which guide and define the actions and decisions of the directors, officers and employees of the entire San Miguel Group, including the Company.

The Board of Directors of the Company, at its meeting on August 8, 2013, approved the adoption of the Company's own Code of Ethics that embodies the guidelines and principles on acceptable behavior and performance of the employees and business partners (i.e., contractors, suppliers, distributors) of the organization, including their directors. It is aligned with the SMC Code of Ethics and Conduct, and supports SMC's program on corporate governance.

The Company's Code of Ethics is the centerpiece program of the Company that integrates, as well as serves as the foundation for existing and future policies to be observed by the organization's employees and business partners. It intends to enlist employees and business partners to the Company's core purpose, value and envisioned future, thus engaging them to become more conscientious employees and committed stakeholders in the Company.

Aside from making the Code of Ethics available for review and download in the corporate website, the Company formally launched the Code in the annual Employee Service Awards in 2013 and then cascaded the same to all employees in all offices and plants of the organization nationwide. Employees were also given copies of the Code during the cascade and thereafter made to sign their commitment to comply with the Code and adopt the fundamental standards of conduct and values set out therein.

Procedures are also established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a San Miguel Group-wide Whistleblowing policy.

The Company will not tolerate retaliation in any form against a director, officer, employee or other interested party who, in good faith, raises a concern or reports a possible violation under the Whistleblowing policy. This policy, however, shall not be used for addressing or taking up personal grievances.

The Board of Directors of the Company, at its meeting on November 6, 2015, ratified the approval by the Audit Committee of the Company's own Whistle-Blowing Policy. The Policy is aligned with San Miguel Corporation's Whistleblowing policy for the San Miguel Group. However, the Company deemed it necessary to have a supplemental Whistle-Blowing Policy that is broader in coverage, which aims to deter and uncover corrupt, illegal, unethical, fraudulent or other conduct detrimental to the interest of the Company committed by its employees, as well the latter's contractors and suppliers.

The Board ensures the proper and efficient implementation and monitoring of compliance with the Code of Ethics, Whistle-Blowing, and other related internal policies of the Company, including the recent Personal Data Privacy Policy and Related Party Transactions Policy.

The full texts of the Code of Ethics, Whistle-Blowing policy and other related policies may be found at the Company's corporate website.

COMPLIANCE MONITORING

To ensure adherence to corporate governance principles and best practices, as well as applicable laws and relevant regulations, the Board of Directors has appointed a Compliance Officer for the Company, Atty. Alexandra Bengson Trillana. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of its Manual on Corporate Governance, as amended from time to time, applicable laws and the rules and regulations of the relevant regulatory agencies. Such review on compliance with laws and relevant regulations is conducted on a periodic basis as may be necessary upon the effectivity of such laws and regulations, and at least annually. The Compliance Officer holds the position of Vice President. She is also General Counsel of the Company and the Food Division. As Compliance Officer, she has direct reporting responsibilities to the Chairman of the Board.

In May 2017, the Board of Directors approved a new Manual on Corporate Governance to align with the New CG Code under SEC Memorandum Circular No. 19, series of 2016. The new Manual included the creation of a Corporate Governance Committee (to take the place of the Nomination and Hearing Committee and Executive Compensation Committee), a Related Party Transactions Committee and a Board Risk Oversight Committee, in addition to the existing Audit Committee. The new Manual is available for viewing and download at the Company's corporate website.

In August 2017, the Board approved the adoption by the Corporate Governance Committee, Related Party Transactions Committee and Board Risk Oversight Committee of their respective Charters, as reviewed and endorsed by each Committee. The approval of the adoption by the Audit Committee of its Charter was approved by the Board in August 2012 upon the endorsement of the Audit Committee. The Charters of the Audit Committee, Corporate Governance Committee, Related Party Transactions Committee and Board Risk Oversight Committee each outline the purpose, membership and qualifications, structure and operations, duties and responsibilities, reporting process and performance evaluation of the said Board Committees, and the procedures which shall guide the conduct of its functions, to ensure adherence by the Company to the best practices of good corporate governance. The full texts of said Charters may be viewed at the Company's corporate website.

In March 2017, upon the endorsement of the Audit Committee, the Board approved the Charter of the Internal Audit Group of the Company.

On May 29, 2018, the Company submitted its first I-ACGR in accordance with SEC Memorandum Circular No. 17, series of 2017.

In January 2019, in accordance with recent SEC pronouncements, the Company submitted a Letter-Advisement to the SEC on the attendance of Directors at Board and stockholder meetings in the year 2018.

The Company is assessed annually in accordance with the ASEAN Corporate Governance Scorecard for publicly listed companies in the ASEAN region.

In July 2018, the Institute of Corporate Directors recognized the Company as a top performing publicly listed company in the Philippines under the 2017 ASEAN Corporate Governance Scorecard. The Company continues to improve its policies and institutionalize good corporate governance practices, to make this a competitive edge in the way it conducts business.

ANNUAL TRAINING OR PROGRAM ON CORPORATE GOVERNANCE

The Company encourages its directors and officers to attend continuous professional education programs.

The Company organizes an annual seminar or program on Corporate Governance for directors and key officers, in accordance with SEC regulations. In 2018, the topics covered in the four-hour course were an effective Corporate Governance model, the updated definition of Corporate Governance; enhancing the Audit Committee's effectiveness including the Audit Committee's oversight role, financial reporting and disclosures, oversight of management and internal audit, and the Committee's relationship with the external auditor; Sustainability Reporting including the linkage between the Code of Corporate Governance and Sustainability Reporting, an overview of Sustainability, benefits of Sustainability Reporting, challenges to Sustainability, a roadmap to nonfinancial reporting, and an overview of different reporting frameworks on Sustainability Reporting. The directors (with the exception of Ms. Ma. Romela M. Bengzon whose schedule did not permit her to attend any of the four seminars organized by the San Miguel Group in 2018) and key officers, including the Corporate Secretary and Compliance Officer of the Company, as well as its internal audit group head, attended a seminar on corporate governance conducted by a SEC-accredited training provider in 2018.

The Company certifies that, for 2018, it has complied with the provisions of its Manual on Corporate Governance, as amended in accordance with the New CG Code.

WEBSITE

The Company's Articles of Incorporation, By-laws, Manual on Corporate Governance, Board Committee charters, policies, up-to-date information on the Company and its businesses and products, results of business operations, financial statements, career opportunities and other relevant information to encourage shareholders including institutional shareholders to attend the ASM, may be viewed at its corporate website www.smfb.com.ph.

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2018

The undersigned Audit Committee assists the Board of Directors of San Miguel Food and Beverage, Inc., formerly San Miguel Pure Foods Company Inc. (the "Company") in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies.

In fulfillment of these responsibilities, the Audit Committee performed the following in 2018:

- We endorsed for approval by the stockholders, and the stockholders approved the appointment of R.G. Manabat & Co. as the Company's independent external auditor for 2018;
- We reviewed and approved the terms of engagement of the external auditor, including the audit, audit-related and any non-audit services provided by the external auditor to the Company and the fees for such services, and ensured that the same did not impair the external auditor's independence and objectivity;
- We endorsed for approval by the Board, and the Board approved, the appointment of Ms. Ophelia L. Fernandez, head of the internal audit group of the Company and its subsidiaries;
- We reviewed and approved the scope of the audit and audit programs of the external auditor, as well as the Company's internal audit group, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- We reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission (SEC) and applicable laws;
- We reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, confirm that these are adequate, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom; and
- We reported compliance to the SEC on the results of the accomplishment by the members of the Audit Committee Self-Rating Form in accordance with Audit Committee Charter and in compliance with the requirements of the SEC Memorandum Circular No. 4, Series of 2012.

All members of the Audit Committee, three of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2018.

Carmelo L. Santiago
Chairman (Independent Director)

Ricardo C. Marquez
Member (Independent Director)

Minita V. Chico-Nazario
Member (Independent Director)

Menardo R. Jimenez
Member

Ferdinand K. Constantino
Advisor

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of San Miguel Food and Beverage, 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, 2018, 2017 and 2016, 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.

R.G. Manabat & 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.

EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

RAMON S. ANG
President and Chief Operating Officer

ILDEFONSO B. ALINDOGAN
Vice President and Chief Finance Officer

Signed this 13th day of March 2019

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Food and Beverage, Inc.
23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City

Opinion

We have audited the consolidated financial statements of San Miguel Food and Beverage, Inc. *(Formerly San Miguel Pure Foods Company Inc.)* and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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 audit of the 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 period. 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.

Impairment Testing of Trademarks and Brand Names (P37,433 million)
Refer to Note 16 to the consolidated financial statements.

The risk
The Group has assessed that the trademarks and brand names have indefinite useful lives in view of the fact that there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group. Trademarks and brand names represent 16% of the consolidated total assets of the Group. As required by Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, impairment testing is required

annually for intangible assets with indefinite useful lives, irrespective of whether there is an indication that the related assets may be impaired.

We focused on this area because of the subjectivity and complexity of determining the recoverable amounts which involve significant estimation uncertainty. As a result, we assessed that the impairment testing is a key audit matter.

Our response
Our audit work included an evaluation and assessment of the methodology applied in the impairment review in accordance with PAS 36. We have updated our understanding of the management's annual impairment process. We evaluated the reasonableness of the future cash flow forecasts, by comparing them with the latest Board of Directors' approved budgets and considered the historical accuracy of management's forecasts by comparing prior year forecasts to actual results. We challenged the key assumptions for long term growth rates in the forecasts by comparing them with historical results, economic and industry forecasts; and the discount rate used by recalculating the Group's weighted average cost of capital using market comparable information. We have involved our own valuation specialist in the evaluation. We have also assessed the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

Revenue Recognition (P286,378 million)
Refer to Notes 7, 22 and 30 to the consolidated financial statements.

The risk
Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when control of the goods or services is transferred to the customer over time or at a point in time, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. While revenue recognition and measurement are not complex for the Group, revenues may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement. The nature of the Group's operations poses a risk that revenue recognized may be inconsistent with the requirements of PFRS 15, *Revenue from Contracts with Customers*, since there is a timing difference between recording the transaction and transfer of significant control to the customers. Moreover due to materiality of revenue in the consolidated financial statements, it is deemed as one of our key audit matters.

Our response
Our audit work included evaluation and assessment of the revenue recognition policies of the Group in accordance with PFRS 15. We have identified and assessed key controls over the revenue process. We have also involved our Information Technology (IT) specialists to assist in the audit of automated controls, including interface controls between different IT applications, for the evaluation of relevant IT systems and the design and operating effectiveness of controls over the recording of revenue transactions. We tested sales throughout the period by selecting samples of transactions to ascertain that it met the revenue recognition criteria and traced it to source documentation to ensure propriety of recording. We checked whether transactions were recorded in the appropriate accounting period. We tested, on a sampling basis, credit notes issued after the financial year, to identify potential reversals of revenue which were inappropriately recognized in the current financial year. In addition, a combination of third party confirmations and testing of subsequent collections of credit sales were conducted. We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

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, 2018, 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, 2018 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 audit 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 audit or otherwise appears to be materially misstated.

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Emphasis of Matter - Comparative information

We draw attention to Note 5 to the consolidated financial statements which describes that the Group made adjustments to the comparative information in the accompanying consolidated financial statements resulting from the retrospective application of the pooling of interests method for the acquisition of San Miguel Brewery Inc. and Ginebra San Miguel Inc. by San Miguel Food and Beverage, Inc. which is considered a business combination of entities under common control. Consequently, the comparative information in the accompanying consolidated financial statements has been restated. Our conclusion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The consolidated financial statements of San Miguel Food and Beverage, Inc. and Subsidiaries as at December 31, 2017 and for the years ended December 31, 2017 and 2016, excluding the retrospective adjustments described in Note 5 to the consolidated financial statements, were audited by other auditors, who expressed an unmodified opinion on those consolidated financial statements on March 14, 2018.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2018, we have also audited the retrospective adjustments described in Note 5 to the consolidated financial statements that were applied to restate the comparative information. We were not engaged to audit, review, or apply any procedures to the comparative information, other than with respect to the retrospective adjustments described in Note 5. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 5 to the consolidated financial statements are appropriate and have been properly applied.

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 misstatement, 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 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 audit.

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 period 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.

The engagement partner on the audit resulting in this independent auditors' report is John Molina.

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-2, Group A, valid until August 10, 2020
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. MKT 7333627
Issued January 3, 2019 at Makati City

March 13, 2019
Makati City, Metro Manila

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(With Comparative Figures for 2017)
(In Millions)

	Note	**2018**	2017 (As restated - Note 5)
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 8, 33, 34*	**P39,425**	P35,540
Trade and other receivables - net	*4, 9, 30, 33, 34*	**19,554**	18,237
Inventories	*4, 10*	**38,662**	28,358
Current portion of biological assets - net	*4, 11*	**4,245**	3,422
Prepaid expenses and other current assets	*12, 30, 33, 34*	**5,148**	4,872
Total Current Assets		**107,034**	90,429
Noncurrent Assets			
Investments - net	*4, 13*	**339**	399
Property, plant and equipment - net	*4, 14*	**61,921**	51,125
Investment property - net	*4, 15*	**2,348**	2,100
Biological assets - net of current portion	*4, 11*	**2,844**	2,695
Goodwill - net	*4, 16*	**996**	996
Other intangible assets - net	*4, 16*	**40,950**	40,786
Deferred tax assets	*4, 28*	**2,463**	2,791
Other noncurrent assets - net	*4, 17, 29, 30, 33, 34*	**19,609**	13,782
Total Noncurrent Assets		**131,470**	114,674
		P238,504	P205,103
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*18, 30, 33, 34*	**P21,979**	P13,939
Trade payables and other current liabilities	*19, 30, 33, 34*	**43,370**	33,609
Income and other taxes payable	*28*	**5,602**	5,734
Dividends payable		**34**	30
Current maturities of long-term debt - net of debt issue costs	*20, 33, 34*	**12,920**	114
Total Current Liabilities		**83,905**	53,426
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*20, 33, 34*	**22,788**	34,665
Deferred tax liabilities	*28*	**53**	53
Other noncurrent liabilities	*4, 29, 30, 33, 34*	**1,643**	2,338
Total Noncurrent Liabilities		**24,484**	37,056

Forward

	Note	**2018**	2017 (As restated - Note 5)
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	*21*	**P6,251**	P6,251
Additional paid-in capital	*21*	**366,620**	367,342
Equity adjustments from common control transactions	*5*	**(328,273)**	(328,273)
Other equity reserves		**(1,050)**	(1,784)
Retained earnings:	*21*		
Appropriated		**23,312**	12,378
Unappropriated		**35,916**	37,950
Treasury stock	*21*	**(15,182)**	(15,182)
		87,594	78,682
Non-controlling Interests	*2, 6*	**42,521**	35,939
Total Equity		**130,115**	114,621
		P238,504	P205,103

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for 2017 and 2016)
(In Millions, Except Per Share Data)

	Note	**2018**	2017 (As restated - Note 5)	2016 (As restated - Note 5)
SALES	*7, 22, 30*	**P286,378**	P251,589	P227,279
COST OF SALES	*23, 30*	**194,236**	168,460	152,108
GROSS PROFIT		**92,142**	83,129	75,171
SELLING AND ADMINISTRATIVE EXPENSES	*24, 30*	**(46,192)**	(40,728)	(38,128)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*18, 20, 27*	**(2,998)**	(2,658)	(3,212)
INTEREST INCOME	*8, 27*	**1,178**	669	511
EQUITY IN NET LOSSES OF JOINT VENTURES	*13*	**(83)**	(186)	(97)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*13, 14*	**7**	-	149
OTHER CHARGES - Net	*27*	**(693)**	(365)	(295)
INCOME BEFORE INCOME TAX		**43,361**	39,861	34,099
INCOME TAX EXPENSE	*28*	**12,828**	11,635	10,097
NET INCOME		**P30,533**	P28,226	P24,002
Attributable to:				
Equity holders of the Parent Company		**P18,245**	P17,305	P14,739
Non-controlling interests	*6*	**12,288**	10,921	9,263
		P30,533	P28,226	P24,002
Basic and Diluted Earnings per Common Share Attributable to Equity Holders of the Parent Company	*31*	**P2.94**	P2.78	P2.35

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for 2017 and 2016)
(In Millions)

	Note	**2018**	2017 (As restated - Note 5)	2016 (As restated - Note 5)
NET INCOME		**P30,533**	P28,226	P24,002
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Remeasurement gain (loss) on reserve for retirement plan	*29*	**850**	(149)	793
Income tax benefit (expense)	*28*	**(258)**	53	(226)
Share in other comprehensive income of joint ventures	*13*	**17**	67	37
Net gain on financial assets at fair value through other comprehensive income		**3**	-	-
		612	(29)	604
Items that may be reclassified to profit or loss				
Gain on exchange differences on translation of foreign operations		**800**	434	962
Net gain on available-for-sale financial assets		**-**	12	1
		800	446	963
OTHER COMPREHENSIVE INCOME- - Net of tax		**1,412**	417	1,567
TOTAL COMPREHENSIVE INCOME - Net of tax		**P31,945**	P28,643	P25,569
Attributable to:				
Equity holders of the Parent Company		**P18,979**	P17,501	P15,534
Non-controlling interests	*6*	**12,966**	11,142	10,035
		P31,945	P28,643	P25,569

See Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for 2017 and 2016)
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves										
		Capital Stock		Additional	Equity Adjustments	Reserve for			Other	Retained Earnings		Treasury Stock			Non-	
	Note	Common	Preferred	Paid-in Capital	from Common Control Transactions	Retirement Plan	Fair Value Reserve	Translation Reserve	Equity Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	controlling Interests	Total Equity
As at January 1, 2018, As Previously Reported		P1,709	P300	P35,235	P -	(P547)	P5	(P140)	P401	P2,999	P21,125	(P182)	(P15,000)	P45,905	P2,243	P48,148
Share swap transaction	*5*	4,242	-	332,107	-	-	-	-	-	-	-	-	-	336,349	-	336,349
Effect of common control business combination	*5*	-	-	-	(328,273)	(1,363)	1	337	(478)	9,379	16,825	-	-	(303,572)	33,696	(269,876)
As at January 1, 2018, As Restated		5,951	300	367,342	(328,273)	(1,910)	6	197	(77)	12,378	37,950	(182)	(15,000)	78,682	35,939	114,621
Adjustment due to Philippine Financial Reporting Standards (PFRS) 9	*3*	-	-	-	-	-	-	-	-	-	51	-	-	51	49	100
As at January 1, 2018, As Adjusted		5,951	300	367,342	(328,273)	(1,910)	6	197	(77)	12,378	38,001	(182)	(15,000)	78,733	35,988	114,721
Remeasurement loss on reserve for retirement plan, net of deferred tax		-	-	-	-	309	-	-	-	-	-	-	-	309	283	592
Share in other comprehensive income of joint ventures		-	-	-	-	-	-	12	-	-	-	-	-	12	5	17
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	408	-	-	-	-	-	408	392	800
Net gain financial assets at fair value through other comprehensive income		-	-	-	-	-	5	-	-	-	-	-	-	5	(2)	3
Other comprehensive income		-	-	-	-	309	5	420	-	-	-	-	-	734	678	1,412
Net income		-	-	-	-	-	-	-	-	-	18,245	-	-	18,245	12,288	30,533
Total comprehensive income		-	-	-	-	309	5	420	-	-	18,245	-	-	18,979	12,966	31,945
Additions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	60	60
Appropriations		-	-	-	-	-	-	-	-	10,934	(10,934)		-	-	-	-
Share issuance costs:																
Share swap transaction	*5*	-	-	(722)	-	-	-	-	-	-	-	-	-	(722)	-	(722)
Increase in authorized capital stock		-	-	-	-	-	-	-	-	-	(9)	-	-	(9)	-	(9)
Cash dividends declared		-	-	-	-	-	-	-	-	-	(6,244)	-	-	(6,244)	(3,492)	(9,736)
Cash dividends declared by San Miguel Brewery Inc. to San Miguel Corporation before the restructuring	*5*	-	-	-	-	-	-	-	-	-	(3,143)	-	-	(3,143)	(3,001)	(6,144)
As at December 31, 2018		P5,951	P300	P366,620	(P328,273)	(P1,601)	P11	P617	(P77)	P23,312	P35,916	(P182)	(P15,000)	P87,594	P42,521	P130,115

See Notes to the Consolidated Financial Statements.

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves				Retained Earnings						
		Capital Stock		Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Treasury Stock		Total	Non-controlling Interests	Total Equity
	Note	Common	Preferred									Common	Preferred			
As at January 1, 2017, As Previously Reported		P1,709	P300	P35,235	P -	(P386)	P5	(P142)	P401	P2,999	P16,412	(P182)	(P15,000)	P41,351	P1,836	P43,187
Share swap transaction	*5*	4,242	-	332,107	-	-	-	-	-	-	-	-	-	336,349	-	336,349
Effect of common control business combination	*5*	-	-	-	(328,273)	(1,385)	(5)	10	(478)	4,360	16,766	-	-	(309,005)	28,513	(280,492)
As at January 1, 2017, As Restated		5,951	300	367,342	(328,273)	(1,771)	-	(132)	(77)	7,359	33,178	(182)	(15,000)	68,695	30,349	99,044
Remeasurement loss on reserve for retirement plan, net of deferred tax		-	-	-	-	(139)	-	-	-	-	-	-	-	(139)	43	(96)
Share in other comprehensive income of joint ventures		-	-	-	-	-	-	46	-	-	-	-	-	46	21	67
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	283	-	-	-	-	-	283	151	446
Net gain on available-for-sale financial assets, net of deferred tax		-	-	-	-	-	6	-	-	-	-	-	-	6	6	-
Other comprehensive income		-	-	-	-	(139)	6	329	-	-	-	-	-	196	221	417
Net income		-	-	-	-	-	-	-	-	-	17,305	-	-	17,305	10,921	28,226
Total comprehensive income		-	-	-	-	(139)	6	329	-	-	17,305	-	-	17,501	11,142	28,643
Appropriations		-	-	-	-	-	-	-	-	5,019	(5,019)	-	-	-	-	-
Additions to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	88	88
Share issuance cost		-	-	-	-	-	-	-	-	-	(7)	-	-	(7)	-	(7)
Cash dividends declared		-	-	-	-	-	-	-	-	-	(1,849)	-	-	(1,849)	(238)	(2,087)
Cash dividends declared by San Miguel Brewery Inc. to San Miguel Corporation before the restructuring	*5*	-	-	-	-	-	-	-	-	-	(5,658)	-	-	(5,658)	(5,402)	(11,060)
As at December 31, 2017		P5,951	P300	P367,342	(P328,273)	(P1,910)	P6	P197	(P77)	P12,378	P37,950	(P182)	(P15,000)	P78,682	P35,939	P114,621

See Notes to the Consolidated Financial Statements.

		Equity Attributable to Equity Holders of the Parent Company														
						Other Equity Reserves				Retained Earnings						
		Capital Stock		Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Treasury Stock		Total	Non-controlling Interests	Total Equity
	Note	Common	Preferred									Common	Preferred			
As at January 1, 2016, As Previously Reported		P1,709	P300	P35,235	P -	(P561)	P4	(P161)	P401	P6,199	P9,328	(P182)	(P15,000)	P37,272	P1,744	P39,016
Share swap transaction	*5*	4,242	-	332,107	-	-	-	-	-	-	-	-	-	336,349	-	336,349
Effect of common control business combination	*5*	-	-	-	(328,273)	(1,564)	(5)	(411)	(478)	1,700	15,556	-	-	(313,475)	23,882	(289,593)
As at January 1, 2016, As Restated		5,951	300	367,342	(328,273)	(2,125)	(1)	(572)	(77)	7,899	24,884	(182)	(15,000)	60,146	25,626	85,772
Remeasurement gain on reserve for retirement plan, net of deferred tax		-	-	-	-	354	-	-	-	-	-	-	-	354	213	567
Share in other comprehensive income of joint ventures		-	-	-	-	-	-	25	-	-	-	-	-	25	12	37
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	415	-	-	-	-	-	415	547	962
Net gain on available-for-sale financial assets, net of deferred tax		-	-	-	-	-	1	-	-	-	-	-	-	1	-	1
Other comprehensive income		-	-	-	-	354	1	440	-	-		-	-	795	772	1,567
Net income		-	-	-	-	-	-	-	-	-	14,739	-	-	14,739	9,263	24,002
Total comprehensive income		-	-	-	-	354	1	440	-	-	14,739	-	-	15,534	10,035	25,569
Reversal of Appropriations - net		-	-	-	-	-	-	-	-	(540)	540	-	-	-	-	-
Cash dividends declared		-	-	-	-	-	-	-	-	-	(1,798)	-	-	(1,798)	(360)	(2,158)
Cash dividends declared by San Miguel Brewery Inc. to San Miguel Corporation before the restructuring	*5*	-	-	-	-	-	-	-	-	-	(5,187)	-	-	(5,187)	(4,952)	(10,139)
As at December 31, 2016		P5,951	P300	P367,342	(P328,273)	(P1,771)	P -	(P132)	(P77)	P7,359	P33,178	(P182)	(P15,000)	P68,695	P30,349	P99,044

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for 2017 and 2016)
(In Millions)

	Note	**2018**	2017 (As restated - Note 5)	2016 (As restated - Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P43,361**	P39,861	P34,099
Adjustments for:				
Depreciation and amortization and others - net	*25*	**8,807**	7,615	7,928
Interest expense and other financing charges	*27*	**2,998**	2,658	3,212
Retirement costs	*29*	**987**	915	841
Impairment losses on receivables and write-down of inventories	*9, 10*	**701**	690	954
Impairment loss on property, plant and equipment and other noncurrent assets	*27*	**655**	534	109
Equity in net losses of joint ventures	*13*	**83**	186	97
Other charges (income) net of loss (gain) on derivative transactions		**20**	(179)	221
Loss (gain) on fair valuation of agricultural produce	*10*	**7**	(37)	2
Gain on sale of investments and property and equipment		**(7)**	-	(149)
Interest income	*27*	**(1,178)**	(669)	(511)
Operating income before working capital changes		**56,434**	51,574	46,803
Decrease (increase) in:				
Trade and other receivables		**(1,038)**	631	(1,269)
Inventories		**(11,266)**	(3,698)	(3,959)
Current portion of biological assets		**(822)**	(301)	197
Prepaid expenses and other current assets		**(675)**	(787)	477
Increase in trade payables and other current liabilities		**9,724**	7,292	1,810
Cash generated from operations		**52,357**	54,711	44,059
Income taxes paid		**(12,725)**	(10,783)	(9,710)
Contributions paid	*29*	**(1,033)**	(1,013)	(2,357)
Interest received		**1,113**	630	480
Interest paid		**(2,885)**	(2,647)	(3,176)
Net cash flows provided by operating activities		**36,827**	40,898	29,296

Forward

	Note	**2018**	2017 (As restated - Note 5)	2016 (As restated - Note 5)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment and investment property	*14, 15*	**(P14,246)**	(P12,959)	(P8,071)
Increase in biological assets, intangible assets and other noncurrent assets	*11, 16, 17*	**(11,795)**	(7,758)	(5,798)
Proceeds from sale of investments and property and equipment		**28**	307	386
Net cash flows used in investing activities		**(26,013)**	(20,410)	(13,483)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings	*18*	**164,251**	194,395	200,619
Long-term borrowings	*20*	**992**	-	-
Payments of:				
Short-term borrowings	*18*	**(156,209)**	(193,579)	(199,485)
Long-term borrowings	*20*	**(114)**	(3,115)	(184)
Cash dividends paid		**(15,876)**	(13,146)	(12,294)
Payment of share issuance costs	*5*	**(722)**	(10)	-
Increase in other noncurrent liabilities		**300**	-	-
Additions to non-controlling interests	*6*	-	88	-
Proceeds from deposit for future stock subscription		-	60	1
Net cash flows used in financing activities		**(7,378)**	(15,307)	(11,343)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**449**	27	282
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,885**	5,208	4,752
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**35,540**	30,332	25,580
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P39,425**	P35,540	P30,332

See Notes to the Consolidated Financial Statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With Comparative Figures from 2017 and 2016)
(Amounts in Millions, Unless Otherwise Indicated)

1. Reporting Entity

San Miguel Food and Beverage, Inc. (SMFB or the Parent Company, formerly San Miguel Pure Foods Company Inc.), a subsidiary of San Miguel Corporation (SMC or the Intermediate Parent Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in October 1956 for a term of 50 years. On August 8, 2006, the stockholders approved the amendment to the Articles of Incorporation of the Parent Company, extending the term for which the corporation is to exist for another 50 years from October 30, 2006 or until October 30, 2056. The amendment was subsequently approved by the SEC.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed in the Philippine Stock Exchange (PSE) since 1973 and 2011, respectively. Top Frontier Investment Holdings, Inc. (Top Frontier) is the ultimate parent company of SMFB and its subsidiaries (SMFB and its subsidiaries collectively referred to as the Group. SMC and Top Frontier are both public companies under Section 17.2 of the Securities Regulation Code (SRC).

The Group is engaged in various business activities, which include poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, specialty oils, spreads, desserts and dairy-based products, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling. Following the corporate reorganization in June 2018, the Group is also engaged in manufacturing, selling and distribution of alcoholic and non-alcoholic beverages (NAB).

On November 3, 2017, the Board of Directors (BOD) of SMC approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to result in synergies in the food and beverage business units of the San Miguel Group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel Group through SMFB.

In this connection, the following corporate actions were approved by the BOD of SMFB on November 3, 2017: (a) amendments to the Articles of Incorporation to change/expand the primary purpose of SMFB to include the beverage business and accordingly change its corporate name from "San Miguel Pure Foods Company Inc." to "San Miguel Food and Beverage, Inc.", reduce the par value of SMFB's common shares from P10.00 per share to P1.00 per share, and deny pre-emptive rights for issuances or dispositions of all common shares (collectively, the "First Amendments"); (b) upon approval by the SEC of the First Amendments, the increase in SMFB's authorized capital stock by P9,540 divided into 9,540,000,000 common shares with a par value of P1.00 per share, and the amendment to the Articles of Incorporation to reflect such increase (the "Increase"); (c) the acquisition of all of SMC's common shares in San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI) (collectively, the "Exchange Shares") and issuance by SMFB of 4,242,549,130 new common shares (the "New Shares") to SMC from the Increase, as consideration for the Exchange Shares; (d) the tender offer for SMB and GSMI shares held by minority shareholders, if required; and (e) the listing on the PSE of the additional shares resulting from the reduction of par value of common shares and the New Shares to be issued to SMC.

On January 18, 2018, the stockholders of SMFB, in its special stockholders' meeting, approved the foregoing corporate actions.

On March 14, 2018, the following amendments to the By-laws of SMFB were approved by the BOD of SMFB: (i) the change in corporate name to "San Miguel Food and Beverage, Inc." in the Title of the By-laws; (ii) the change in Official Seal of SMFB to reflect the said new corporate name in Article XI of the By-laws; and (iii) the disqualification for director in SMFB to the effect that persons engaged in any business that competes with or is antagonistic to that of SMFB are disqualified from sitting in the Board of Directors of SMFB, in Article II, Section 1 of the By-laws (collectively, the "Corporate Name Related Amendments").

On March 23, 2018, the SEC approved the First Amendments to the Articles of Incorporation of SMFB.

On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB the Exchange Shares at the total transfer value of P336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue unto SMC the New Shares which will be taken out of the Increase. As such, the issuance of the New Shares to SMC and the transfer of the Exchange Shares to SMFB were conditioned upon the approval by the SEC of the Increase.

On May 11, 2018, the stockholders of SMFB, in its regular stockholders' meeting, approved the (i) amendments to the By-laws of SMFB to reflect the Corporate Name Related Amendments, and (ii) delegation to management of the authority previously approved by the BOD on March 14, 2018, to sign, execute and deliver all documents on behalf of SMFB, as well as to take all other actions in order for SMFB to comply with the minimum public ownership requirement of the SEC and PSE for publicly listed companies, including the offer and issuance of new common shares to the public.

On June 18, 2018, the SEC approved the Corporate Name Related Amendments to the By-laws of SMFB.

On June 29, 2018, the SEC approved the Increase by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation. As a result of the approval of the Increase, which involved the issuance by SMFB of the New Shares to SMC in consideration for the Exchange Shares, the consolidation of the food and beverage businesses of SMC under SMFB was completed.

With the approval of the Increase, the SEC consequently accepted and approved the transfer value of the Exchange Shares amounting to P336,349, the investment value of SMFB in SMB and GSMI.

As the issuance of the New Shares resulted in SMFB's public ownership level falling below the minimum ten percent (10%) requirement under the PSE's Amended Rule on Minimum Public Ownership ("MPO Rule"), the PSE suspended the trading of SMFB's common and preferred shares (collectively, the "FB Shares") commencing July 6, 2018 and until SMFB is able to secure a favorable ruling/opinion from the Bureau of Internal Revenue (BIR) on the appropriate taxes to be imposed on the trades of FB Shares through the PSE during the period not exceeding six months (the "MPO Exemption Period").

On July 20, 2018, SMFB received BIR Ruling No. 1092-2018 which confirmed that the share swap and the follow-on offer of common shares and all trades of FB Shares through the PSE during the MPO Exemption Period are not subject to capital gains tax of 15% under of Revenue Regulations (RR) No.16-2012 as amended by RR No. 11-2018 (TRAIN Law), and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) shall be imposed on all trades through the PSE of FB Shares during the same period. The temporary exemption is effective until December 31, 2018. On July 23, 2018, the PSE lifted the trading suspension of FB Shares.

On September 19, 2018, SMFB filed with the PSE an Application for Listing of Stocks, for the listing of the New Shares issued by SMFB to SMC. The PSE issued a Notice of Approval for the listing of the New Shares on November 5, 2018 and such shares were listed with the PSE effective November 9, 2018.

On October 12, 2018, the BIR issued BIR Certification No. 010-2018, which confirmed the tax-free transfer by SMC of the Exchange Shares, in consideration for the New Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB in the stock and transfer books of SMB and GSMI, as the case may be, on November 5, 2018.

On October 26, 2018, the SEC issued the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale relating to the offer of up to 1,020,050,000 common shares in SMFB owned by SMC in a secondary sale transaction to institutional investors inclusive of the PSE Trading Participants' share allocation at an offer price of P85.00 per share.

On November 12, 2018, the secondary offering was completed. A total of 400,940,590 SMFB common shares plus the over-allotment option of 60,141,090 SMFB common shares owned by SMC have been sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total amount of P39,192 million. With the completion of the offering, SMFB is compliant with the MPO Rule.

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

As a result of the consolidation, SMFB now operates its business through major operating food subsidiaries as well as the major operating beverage subsidiaries of SMB and GSMI.

SMB
SMB was incorporated and registered with the SEC on July 26, 2007. SMB is a public company under Section 17.2 of the SRC and its outstanding Peso-denominated fixed rate bonds issued in 2009, 2012 and 2014 are listed on the Philippine Dealing & Exchange Corp. (PDEx).

SMB's common shares were listed on the PSE on May 12, 2008. SMB filed a petition for voluntary delisting with the PSE following the PSE's adoption of the minimum public ownership rule and denial by SEC of all requests made (including SMB's request) for the extension of the grace period to comply with such rule. The petition was approved by the PSE on April 24, 2013 and SMB's common shares were delisted effective May 15, 2013.

SMB and its subsidiaries are primarily engaged in manufacturing, selling and distribution of fermented and malt-based alcoholic beverages, as well as non-alcoholic beverages. SMB is also engaged in acquiring, developing and licensing trademarks and intellectual property rights and in the management, sale, exchange, lease and holding for investment of real estate of all kinds including buildings and other structures.

GSMI
GSMI, formerly La Tondeña Distiller's, Inc., was incorporated and registered with the SEC on July 10, 1987. GSMI is a public company under Section 17.2 of the SRC and its shares are listed on the PSE.

GSMI and its subsidiaries are primarily engaged in production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other hard liquor variants which are available nationwide, while some are exported to select countries. GSMI used to engage in the NAB business until the sale of the NAB assets to SMB in 2015.

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 BOD on March 13, 2019.

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

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI) - 2018; Available-for-sale (AFS) financial assets - 2017	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 million (000,000), except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries:

	Percentage of Ownership		Country of Incorporation
	2018	2017	
Food			
San Miguel Mills, Inc. and subsidiaries [including Golden Bay Grain Terminal Corporation and Golden Avenue Corp.]	**100.00**	100.00	Philippines
Magnolia, Inc. and subsidiaries [including Sugarland Animal Farms Corporation (formerly Sugarland Corporation)* and Golden Food Management, Inc. (formerly Golden Food & Dairy Creamery Corporation)**]	**100.00**	100.00	Philippines
San Miguel Foods, Inc. (SMFI) and subsidiaries [including Foodcrave Marketing, Inc. and RealSnacks Mfg. Corp. (RealSnacks)]	**99.99**	99.99	Philippines
PT San Miguel Pure Foods Indonesia (PTSMPFI)	**75.00**	75.00	Indonesia
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	**70.00**	70.00	Philippines
The Purefoods-Hormel Company, Inc. (PF-Hormel)	**60.00**	60.00	Philippines
Brightshore Corp. (Brightshore)***	**100.00**	-	Philippines
San Miguel Pure Foods International, Limited and subsidiary [including San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd.]	**100.00**	100.00	British Virgin Islands (BVI)
Beer and NAB			
San Miguel Brewery Inc. and Subsidiaries	**51.16**	-	Philippines
San Miguel Brewing International Limited and subsidiaries [including Neptunia Corporation Limited (SMBHK) and subsidiaries {including San Miguel Brewery Hong Kong Limited and subsidiaries (including San Miguel (Guangdong) Limited and subsidiary, Guangzhou San Miguel Brewery Company, Limited, and San Miguel Shunde Holdings Limited and subsidiary, San Miguel (Guangdong) Brewery Company, Limited)}, San Miguel (China) Investment Company, Limited, San Miguel (Baoding) Brewery Company Limited (SMBB), San Miguel Holdings (Thailand) Limited and subsidiary, San Miguel Beer (Thailand) Limited, San Miguel Marketing (Thailand) Limited, Dragon Island Investments Limited, San Miguel (Vietnam) Limited, San Miguel Brewery Vietnam Company, Limited, and San Miguel Malaysia Pte. Ltd. and subsidiary, PT. Delta Djakarta Tbk. and subsidiary]			
Iconic Beverages, Inc. (IBI)			
Brewery Properties Inc. (BPI) and subsidiary			
Spirits			
Ginebra San Miguel Inc. and Subsidiaries, including:	**67.99**	-	Philippines
Distileria Bago, Inc.			
East Pacific Star Bottlers Phils Inc. (EPSBPI)			
Ginebra San Miguel International Ltd. (GSMIL)			
GSM International Holdings Limited (GSMIHL)			
Global Beverages Holdings Limited			
Siam Holdings Limited			

** Change in corporate name effective September 24, 2018*
*** Change in corporate name effective September 20, 2018*
**** Incorporated on August 31, 2018*

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 both 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 include the interests not held by the Parent Company in its subsidiaries as follows: SMFI, PTSMPFI, SMSCCI, PF-Hormel, SMB and GSMI (Note 6).

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) reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The 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 Interpretation
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Group has adopted the following PFRS starting January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- 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 classification 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 that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Group adopted PFRS 9 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of

comparative period. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the ECL model in estimating impairment which resulted to the decrease in the allowance for impairment losses on receivables by P144 and increase in retained earnings and non-controlling interests by P51 and P49, respectively, as of January 1, 2018 (Note 9).

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	Classification under PAS 39	**Classification under PFRS 9**	**Carrying Amount under PAS 39**	**Carrying Amount under PFRS 9**
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P35,540	P35,540
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	18,237	18,381
Derivative assets	Financial assets at FVPL	Financial assets at FVPL	61	61
Investments in equity instruments	AFS financial assets	Financial assets at FVOCI	53	53
Noncurrent receivables and deposits - net	Loans and receivables	Financial assets at amortized cost	574	574

Financial Assets. The Group continued to measure at fair value, all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- Cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.

- Derivative assets that were designated as at FVPL under PAS 39 as these financial assets were managed on a fair value basis and the performance was monitored on this basis have been classified and mandatorily measured at FVPL under PFRS 9.

- Investments in equity instruments previously classified as AFS financial assets are designated as financial assets at FVOCI at the date of initial application. These equity instruments represent investments that the Group intends to hold for strategic purposes.

Financial Liabilities. There are no changes in the classification and measurement of the Group's financial liabilities.

- 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 withholding tax requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment; (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is

measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in the consolidated statements of income.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new and more comprehensive 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. PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity'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 non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

  The adoption also resulted to the change of the classification of containers deposit from a contra-asset under "Inventories" account to current liabilities under "Trade payable and other current liabilities" account amounting to P4,951 as of December 31, 2018 (Note 19). In the course of performing its obligation to sell alcoholic and non-alcoholic contents, the Group is also obliged to deliver returnable containers, as the fulfillment of their former obligation is dependent on the use of these returnable containers. Upon delivery, the customers have the exclusive use of the returnable containers, thus, allowing them to direct the use and obtain all of the economic benefits under IFRIC 4, Determining Whether an Arrangement Contains a Lease. Accordingly, the refundable containers deposit received from customers is classified as a financial liability (Note 4). The allocation of consideration to the use of the returnable containers is not significant for the year ended December 31, 2018.

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

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies 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.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the Amendments to PAS 28, *Investments in Associates and Joint Ventures*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also

provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

Except as otherwise indicated, the adoption of the new and amended standards and interpretation did not have a material effect on the consolidated financial statements.

New and Amended Standards and Interpretation Not Yet Adopted
A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the 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 interpretation on the respective effective dates:

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transitions approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Group plans to apply the new standard on the effective date using the modified retrospective approach. The cumulative effect of adopting PFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement of comparative information.

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

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the 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 early application permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28). The amendments require the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Prepayment Features with Negative Compensation (Amendments to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with earlier application permitted.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:

  - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

  - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends including payments on financial instruments classified as equity are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

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

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

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020 with early application permitted.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 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: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is 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 Instruments

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

Classification and Subsequent Measurement - Policy Applicable from January 1, 2018

The Group classifies its financial assets, at the initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

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

- it is held within a business model with the object of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category (Notes 8, 9, 17, 33 and 34).

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity

instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group has no investment in debt securities as of December 31, 2018.

The Group's investments in equity instruments at FVOCI are classified under this category (Notes 13, 33 and 34).

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value 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. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 12, 33 and 34).

Classification and Subsequent Measurement - Policy Applicable before January 1, 2018

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 asset classified as HTM investments as of December 31, 2017.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives) with positive fair values, 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 12, 33 and 34).

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 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 8, 9, 17, 33 and 34).

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 equity instruments are classified under this category (Notes 13, 33 and 34).

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. 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 the consolidated statements of income. 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 that are not designated as cash flow hedge are classified under this category (Notes 19, 33 and 34).

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 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.

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 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.

The Group's liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities are included under this category (Notes 18, 19, 20, 33 and 34).

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

Policy Applicable from January 1, 2018

The Group recognizes allowance for ECL on financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in other comprehensive income, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Policy Applicable before January 1, 2018

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.

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.

Derivative Financial Instruments and Hedge Accounting
The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives
The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

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 Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in fair value or cash flows of the hedging instrument are expected to offset the changes in fair value or cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.
When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is; (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has no outstanding derivatives accounted for as cash flow hedge as of December 31, 2018 and 2017.

Embedded Derivatives
The Group assess 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.

However, in the policy applicable from January 1, 2018, an embedded derivative is not separated if the host contract is a financial asset.

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 embedded derivatives as of December 31, 2018 and 2017 (Note 34).

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

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

Finished goods and goods in process	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Materials and supplies	-	at cost, using the moving-average method.

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

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

Materials and Supplies. Net realizable value is the current replacement cost.

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

Containers (i.e., Returnable Bottles, Shells and Pallets). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers - net" under "Other noncurrent assets - net" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Refundable Containers Deposit. These are collected from customers based on deposit value and refundable when the containers are returned to the Group in good condition. These deposits are included under "Trade payables and other current liabilities" account in the consolidated statements of financial position.

Prepaid Expenses and Other Current Assets

Prepaid expenses represents expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

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.

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	38 - 42 weeks

Contract Assets

A contract asset is the right to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than the passage of time. The contract asset is transferred to receivable when the right becomes unconditional. A receivable represents the Group's right to an amount of consideration that is unconditional, only the passage of time is required before payment of the consideration is due.

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.

Business Combinations under Common Control
The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

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

Investments in Joint Ventures
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of a joint venture is recognized as "Equity in net losses of joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of joint ventures" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group

calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in joint venture and then recognizes the loss as part of "Equity in net losses of joint ventures" account in the consolidated statements of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in a joint venture upon loss of joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the joint venture is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

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

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), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

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

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

	Number of Years
Land improvements	5 - 20
Buildings and improvements	3 - 50
Machinery and equipment	2 - 50
Furniture, other equipment and others	2 - 20
Leasehold improvements	3 - 50 or term of the lease, whichever is shorter

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

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

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

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

Investment Property

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the 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 is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Land use rights	42 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

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

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

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

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names 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.

Contract Liabilities

A deferred income is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a deferred income is recognized when the payment is made on the payment is due (whichever is earlier). Deferred income is recognized as revenue when the Group performs under the contract.

Fair Value Measurements

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

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced: or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

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

Revenue from Sale of Goods
Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. Trade discounts and volume rebate do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each period. The general payment terms with customers are up to 60 days. Before PFRS 15, revenue is recognized upon transfer of significant risks and rewards, which is also normally upon delivery, and measured at fair value of consideration receivable, net of returns, discounts and rebates.

Revenue from Services
Revenue from services is recognized when the performance of contractually agreed task has been rendered and control over the service has been transferred to the customer. General payment terms is on an average of 30 days from invoice date. Before PFRS 15, revenue is recognized upon performance of services (tolling), with reference to the stage of completion, which is manufacturing in favor of the customer, where such production inputs are in the name of the customer.

Revenue from Terminal Handling
Revenue from terminal fees is recognized as the services are rendered overtime based on the actual quantity of items handled during the period multiplied by a predetermined rate.

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

Revenue from Other Sources
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.

Interest Income. Interest income is recognized upon using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Dividend Income. Dividend income is recognized when the Group's right to receive the payment is established.

Rent Income. 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. Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary and joint venture, financial assets at FVOCI 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. Gain or loss for financial assets at FVOCI are recognized in OCI.

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

Share-based Payment Transactions
Under the Group's Employee Stock Purchase Plan (ESPP) of SMFB, 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 SMFB. Such transaction is handled centrally by SMFB.

Share-based transaction in which SMFB grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transaction. SMFB 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 SMFB'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.

Finance Lease
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

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 profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- 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 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.

Non-monetary assets and non-monetary 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. Non-monetary 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 financial assets at FVOCI, 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 "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 profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "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 profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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 7 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.

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.

Determining whether an Arrangement Contains a Lease

The Group uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

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

Rent income recognized in the consolidated statements of income amounted to P171, P153 and P131 in 2018, 2017 and 2016, respectively (Notes 27, 30 and 32).

Rent expense recognized in the consolidated statements of income amounted to P3,386, P3,222 and P2,822 in 2018, 2017 and 2016, respectively (Notes 23, 24 and 32).

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Evaluating Control over its Investee. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI, management has determined that the Group controls this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee.

The Group receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is

exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading (TGT) as joint ventures (Note 13).

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

Classification of Financial Instruments. The Group exercises judgments in classifying financial instruments, 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, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 34.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 37).

Estimates and Assumptions

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

Assessment of ECL on Trade Receivables (Upon Adoption of PFRS 9). The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables for at least two years. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade receivables is not material because substantial amount of trade receivables are normally collected within one year. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Trade receivables written-off amounted to P40 in 2018 (Note 9). The allowance for impairment losses on trade receivables amounted to P866 as of December 31, 2018. The carrying amount of trade receivables amounted to P16,707 as of December 31, 2018 (Note 9).

Assessment of ECL on Other Financial Assets at Amortized Cost (Upon Adoption of PFRS 9). The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2018
Other Financial Assets at Amortized Cost		
Cash and cash equivalents (excluding cash on hand)	*8*	**P39,230**
Other current receivables - net (included under "Trade and other receivables - net" account	*9*	**2,847**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	*17*	**526**

The allowance for impairment losses on noncurrent receivables and deposits, included as part of "Other noncurrent assets" account in the consolidated statements of financial position, amounted to P164 as of December 31, 2018 (Note 17).

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables and Deposits (Prior to the Adoption of PFRS 9). 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 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 costs and expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position, amounted to P1,716 as of December 31, 2017 (Notes 9 and 17).

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted P18,811 as of December 31, 2017, respectively (Notes 9, 17, 33 and 34).

Impairment of AFS Financial Assets (Prior to the Adoption of PFRS 9) 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.

The carrying amount of AFS financial assets amounted to P53 as of December 31, 2017 (Notes 13, 33 and 34).

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 10, 11, 13, 15, 16 and 34.

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 P833 and P698 as of December 31, 2018 and 2017, respectively (Note 10).

The carrying amount of inventories amounted to P38,662 and P28,358 as of December 31, 2018 and 2017, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P74,682 and P63,199 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P56,141 and P53,070 as of December 31, 2018 and 2017, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P2,356 and P2,108 at December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of investment property amounted to P366 and P333 million as of December 31, 2018 and 2017, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P16,932 and P12,107 as of December 31, 2018 and 2017, respectively. Accumulated amortization of deferred containers amounted to P18,233 and P16,050 as of December 31, 2018 and 2017, respectively (Note 17).

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.

Intangible assets with finite useful lives, net accumulated amortization, amounted to P1,329 and P1,372 as at December 31, 2018 and 2017, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P1,956 and P1,814 as of December 31, 2018 and 2017, respectively (Note 16).

Impairment of Goodwill, Trademarks and Brand Names, Licenses, Formulas and Recipes, and Franchise with Indefinite Useful Lives. The Group determines whether goodwill, trademarks and brand names, licenses, 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, licenses, 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, licenses, formulas and recipes, and franchise and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P996 as of December 31, 2018 and 2017 (Note 16).

The combined carrying amount of trademarks and brand names, licenses, formulas and recipes, and franchise with indefinite useful lives amounted to P39,633 and P39,426 as at December 31, 2018 and 2017, respectively (Note 16).

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 carrying amounts of goodwill and other intangible assets with indefinite lives arising from business combinations amounted to P40,629 and P40,422 as of December 31, 2018 and 2017, respectively (Note 16).

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 P2,463 and P2,791 as of December 31, 2018 and 2017, respectively (Note 28).
Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments in joint ventures, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the 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 non-financial assets amounted to amounted to P13,247 and P12,551 as at December 31, 2018 and 2017, respectively (Notes 11, 13, 14, 15, 16 and 17).

The combined carrying amounts of investments, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers and idle assets amounted to P85,697 and P69,797 as at December 31, 2018 and 2017, respectively (Notes 11, 13, 14, 15, 16 and 17).

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 29 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 P17,629 and P17,697 as of December 31, 2018 and 2017, respectively (Note 29).

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, 2018 and 2017.

5. Business Combination under Common Control

As discussed in Note 1, the acquisition of SMB and GSMI by SMFB is considered to be a business combination of entities under common control as they are all under the common control of SMC before and after the acquisition.

The Group recognized the assets acquired and liabilities assumed at their carrying amounts in the consolidated financial statements of SMC. The carrying amounts in the consolidated financial statements of SMC are based on the fair values of assets and liabilities as of the date SMB and GSMI became subsidiaries of SMC and adjusted for subsequent transactions. Any goodwill relating to SMB and GSMI recognized in the consolidated financial statements of SMC is also recognized. The difference between the consideration paid or transferred and the net assets acquired is recognized under "Equity adjustments from common control transactions" account in the consolidated statements of changes in equity.

The consolidated financial statements as at December 31, 2018 and for the years ended December 31, 2017 and 2016 were restated as if the entities had been combined for the period that the entities were under common control.

The restated amounts in the consolidated statement of financial position as at December 31, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control						
	Consolidated Statement of Financial Position of SMFB, As Reported	Consolidated Statement of Financial Position of SMB	Consolidated Statement of Financial Position of GSMI	Share Swap Transaction (a)	Elimination of Investments in SMB and GSMI (b)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Financial Position of SMFB, As Restated
ASSETS								
Current Assets								
Cash and cash equivalents	P7,044	P28,297	P199	P -	P -	P -	P -	P35,540
Trade and other receivables - net	11,573	4,995	1,715	-	-	(46)	-	18,237
Inventories	21,002	4,032	3,324	-	-	-	-	28,358
Current portion of biological assets - net	3,422	-	-	-	-	-	-	3,422
Prepaid expenses and other current assets	1,823	1,629	1,420	-	-	-	-	4,872
Total Current Assets	44,864	38,953	6,658	-	-	(46)	-	90,429
Noncurrent Assets								
Investments	-	41	346	336,349	(336,349)	-	12	399
Property, plant and equipment - net	27,412	18,732	4,998	-	-	(17)	-	51,125
Investment property - net	777	1,323	-	-	-	-	-	2,100
Biological assets - net of current portion	2,695	-	-	-	-	-	-	2,695
Goodwill - net	-	-	127	-	692	-	177	996
Other intangible assets - net	4,116	36,808	-	-	-	-	(138)	40,786
Deferred tax assets	801	1,317	673	-	-	-	-	2,791
Other noncurrent assets - net	1,209	12,109	515	-	-	-	(51)	13,782
Total Noncurrent Assets	37,010	70,330	6,659	336,349	(335,657)	(17)	-	114,674
	P81,874	P109,283	P13,317	P336,349	(P335,657)	(P63)	P -	P205,103

Forward

	Consolidated Statement of Financial Position of SMFB, As Reported	Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control						Consolidated Statement of Financial Position of SMFB, As Restated
		Consolidated Statement of Financial Position of SMB	Consolidated Statement of Financial Position of GSMI	Share Swap Transaction (a)	Elimination of Investments in SMB and GSMI (b)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	
LIABILITIES AND EQUITY								
Current Liabilities								
Notes payable	P8,407	P -	P5,532	P -	P -	P -	P -	P13,939
Trade payables and other current liabilities	23,837	9,032	2,010	-	-	(46)	(1,224)	33,609
Income and other taxes payable	745	3,685	110	-	-	-	1,194	5,734
Dividends payable	-	-	-	-	-	-	30	30
Current maturities of long-term debt - net of debt issue costs	-	-	114	-	-	-	-	114
Total Current Liabilities	32,989	12,717	7,766	-	-	(46)	-	53,426
Noncurrent Liabilities								
Long-term debt - net of current maturities and debt issue costs	-	34,665	-	-	-	-	-	34,665
Deferred tax liabilities	27	26	-	-	-	-	-	53
Other noncurrent liabilities	710	1,091	537	-	-	-	-	2,338
Total Noncurrent Liabilities	737	35,782	537	-	-	-	-	37,056
Equity								
Equity attributable to equity holders of the Parent Company								
Capital stock	2,009	15,410	399	4,242	(15,809)	-	-	P6,251
Additional paid-in capital	35,235	515	2,539	332,107	(3,054)	-	-	367,342
Equity adjustments from common control transactions	-	-	-	-	(328,273)	-	-	(328,273)
Other equity reserves	(281)	(1,481)	(395)	-	373	-	-	(1,784)
Retained earnings:						-	-	
Appropriated	2,999	15,010	2,500	-	(8,131)	-	-	12,378
Unappropriated	21,125	29,076	2,641	-	(14,884)	(8)	-	37,950
Treasury stock	(15,182)	(1,029)	(2,670)	-	3,699	-	-	(15,182)
	45,905	57,501	5,014	336,349	(366,079)	(8)	-	78,682
Non-controlling interests	2,243	3,283	-	-	30,422	(9)	-	35,939
Total Equity	48,148	60,784	5,014	336,349	(335,657)	(17)	-	114,621
	P81,874	P109,283	P13,317	P336,349	(P335,657)	(P63)	P -	P205,103

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control					
	Consolidated Statement of Income of SMFB, As Reported	Consolidated Statement of Income of SMB	Consolidated Statement of Income of GSMI	Share of Non-controlling Interests in Net Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Income of SMFB, As Restated
Sales	P117,449	P113,255	P20,892	P -	(P7)	P -	P251,589
Cost of sales	89,868	62,974	15,625	-	(7)	-	168,460
Gross profit	27,581	50,281	5,267	-	-	-	83,129
Selling and administrative expenses	(17,655)	(19,120)	(3,960)	-	7	-	(40,728)
Interest expense and other financing charges	(99)	(2,283)	(276)	-	-	-	(2,658)
Interest income	111	534	24	-	-	-	669
Equity in net losses of joint ventures	-	-	(186)	-	-	-	(186)
Gain on sale of investments and property and equipment	5	-	(2)	-	-	(3)	-
Other income (charges) - net	(125)	(324)	81	-	-	3	(365)
Income before income tax	9,818	29,088	948	-	7	-	39,861
Income tax expense	2,912	8,377	346	-	-	-	11,635
Net Income	P6,906	P20,711	P602	P -	P7	P -	P28,226
Attributable to:							
Equity holders of the Parent Company	P6,569	P20,178	P602	(P10,048)	P4	P -	P17,305
Non-controlling interests	337	533	-	10,048	3	-	10,921
	P6,906	P20,711	P602	P -	P7	P -	P28,226

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control				
	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Consolidated Statement of Comprehensive Income of SMB	Consolidated Statement of Comprehensive Income of GSMI	Share of Non-controlling Interests in Total Comprehensive Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Consolidated Statement of Comprehensive Income of SMFB, As Restated
Net income	P6,906	P20,711	P602	P -	P7	P28,226
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement loss on reserve for retirement plan	(256)	230	(123)	-	-	(149)
Income Tax benefit	77	(61)	37	-	-	53
Share in other comprehensive income of joint ventures	-	-	67	-	-	67
	(179)	169	(19)	-	-	(29)
Items that may be reclassified to profit or loss						
Gain (loss) on exchange differences on translation of foreign operations	2	444	-	-	-	446
Net gain on available-for-sale financial assets	-	-	-	-	-	-
	2	444	-	-	-	446
Other comprehensive income - net of tax	(177)	613	(19)	-	-	417
Total comprehensive income - net of tax	P6,729	P21,324	P583	P -	P7	P28,643
Attributable to:						
Equity holders of the Parent Company	P6,410	P20,896	P583	(P10,392)	P4	P17,501
Non-controlling interests	319	428	-	10,392	3	11,142
	P6,729	P21,324	P583	P -	P7	P28,643

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2016 as a result of the retrospective accounting of the business combination under common control were as follows:

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control					
	Consolidated Statement of Income of SMFB, As Reported	Consolidated Statement of Income of SMB	Consolidated Statement of Income of GSMI	Share of Non-controlling Interests in Net Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Reclassification (d)	Consolidated Statement of Income of SMFB, As Restated
Sales	P111,586	P97,160	P18,572	P -	(P39)	P -	P227,279
Cost of sales	85,952	52,309	13,886	-	(39)	-	152,108
Gross profit	25,634	44,851	4,686	-	-	-	75,171
Selling and administrative expenses	(16,703)	(17,663)	(3,769)	-	7	-	(38,128)
Interest expense and other financing charges	(132)	(2,684)	(396)	-	-	-	(3,212)
Interest income	127	361	23	-	-	-	511
Equity in net losses of joint ventures	-	-	(97)	-	-	-	(97)
Loss on sale of investments and property and equipment	127	-	1	-	-	21	149
Other income (charges) - net	(488)	154	60	-	-	(21)	(295)
Income before income tax	8,565	25,019	508	-	7	-	34,099
Income tax expense	2,589	7,361	147	-	-	-	10,097
Net income	P5,976	P17,658	P361	P -	P7	P -	P24,002
Attributable to:							
Equity holders of the Parent Company	P5,682	P17,217	P361	(P8,525)	P4	P -	P14,739
Non-controlling interests	294	441	-	8,525	3	-	9,263
	P5,976	P17,658	P361	P -	P7	P -	P24,002

Forward

		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control				
	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Consolidated Statement of Comprehensive Income of SMB	Consolidated Statement of Comprehensive Income of GSMI	Share of Non-controlling Interests in Total Comprehensive Income of SMB and GSMI (c)	Intercompany Eliminations and Consolidating Entries (c)	Consolidated Statement of Comprehensive Income of SMFB, As Restated
Net income	P5,976	P17,658	P361	P -	P7	P24,002
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that will not be reclassified to profit or loss						
Remeasurement loss on reserve for retirement plan	246	650	(103)	-	-	793
Income Tax Benefit	(74)	(184)	32	-	-	(226)
Share in other comprehensive income of joint ventures	-	-	37	-	-	37
	172	466	(34)	-	-	604
Items that may be reclassified to profit or loss						
Gain (loss) on exchange differences on translation of foreign operations	20	942	-	-	-	962
Net gain on available-for-sale financial assets	1	-	-	-	-	1
	21	942	-	-	-	963
Other comprehensive income - net of tax	193	1,408	(34)	-	-	1,567
Total comprehensive income - net of tax	P6,169	P19,066	P327	P -	P7	P25,569
Attributable to:						
Equity holders of the Parent Company	P5,877	P18,435	P327	(P9,109)	P4	P15,534
Non-controlling interests	292	631	-	P9,109	3	10,035
	P6,169	P19,066	P327	P -	P7	P25,569

The restated amounts in the consolidated statement of cash flows for the years ended December 31, 2017 and 2016 as a result of the retrospective accounting of the business combination under common control were as follows:

	2017				
		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control			
	Consolidated Statement of Cash flows of SMFB, As Reported	Consolidated Statement of Cash flows of SMB	Consolidated Statement of Cash flows of GSMI	Reclassification (d)	Consolidated Statement of Cash flows of SMFB, As Restated
Net cash flows provided by operating activities	P12,254	P26,601	P2,502	(P459)	P40,898
Net cash flows used in investing activities	(14,322)	(6,047)	(217)	176	(20,410)
Net cash flows used in financing activities	1,572	(14,299)	(2,863)	283	(15,307)
Effect of exchange rate changes in cash and cash equivalents	-	27	-	-	27
Net increase (decrease) in cash and cash equivalents	(496)	6,282	(578)	-	5,208
Cash and cash equivalents at beginning of period	7,540	22,015	777	-	30,332
Cash and cash equivalents at end of period	P7,044	P28,297	P199	P -	P35,540

	2016				
		Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control			
	Consolidated Statement of Cash flows of SMFB, As Reported	Consolidated Statement of Cash flows of SMB	Consolidated Statement of Cash flows of GSMI	Reclassification (d)	Consolidated Statement of Cash flows of SMFB, As Restated
Net cash flows provided by operating activities	P7,216	P21,652	P1,632	(P1,204)	P29,296
Net cash flows used in investing activities	(8,440)	(5,467)	(369)	793	(13,483)
Net cash flows used in financing activities	(524)	(10,297)	(933)	411	(11,343)
Effect of exchange rate changes in cash and cash equivalents	4	277	1	-	282
Net increase (decrease) in cash and cash equivalents	(1,744)	6,165	331	-	4,752
Cash and cash equivalents at beginning of period	9,284	15,850	446	-	25,580
Cash and cash equivalents at end of period	P7,540	P22,015	P777	P -	P30,332

Adjustments from the retrospective application of business combination under common control follow:

a. *Share Swap Transaction*

Represents the issuance of 4,242,549,130 new common shares with a par value of P1.00 to SMC as consideration for the acquisition by SMFB under a Share Swap Transaction of SMC's investments in 7,859,319,270 common shares of SMB and 216,972,000 common shares of GSMI.

The details of the share swap transaction follow:

	Percentage of Ownership	Amount
Transfer value as approved by SEC (Note 1):		
SMB	51.16%	P325,218
GSMI*	67.99%	11,131
		336,349
Par value of the shares issued by SMFB		4,242
Additional paid-in capital of SMFB		P332,107

** The percentage ownership of GSMI represents percentage ownership of the total outstanding common and preferred shares.*

Related transaction costs from the share swap transaction paid and incurred in 2018 amounting to P722 is deducted against additional paid-in capital as at December 31, 2018. Transaction costs is composed of fees for the increase in the authorized capital stock, documentary stamp tax (DST) for the issuance of shares and other filing fees.

b. *Elimination of Investments in SMB and GSMI*

i. Details of the elimination of investments in GSMI and SMB follow:

	SMB	GSMI	Total
Equity Attributable to Equity Holders of the Parent Company:			
Capital stock*	P15,410	P399	P15,809
Additional paid-in capital	515	2,539	3,054
Equity adjustments from common control transactions	317,359	10,914	328,273
Other equity reserves	(246)	(127)	(373)
Retained earnings:			
Appropriated	7,331	800	8,131
Unappropriated	13,961	923	14,884
Treasury stock**	(1,029)	(2,670)	(3,699)
Non-controlling interests	(28,083)	(2,339)	(30,422)
Goodwill recognized at SMC level	-	692	692
	325,218	11,131	336,349
Transfer value	325,218	11,131	336,349
	P -	P -	P -

** Capital stock consists of common shares of SMB amounting to P15,410 and common shares and preferred shares of GSMI amounting to P346 and P53, respectively.*
*** Treasury shares consists of common shares of SMB amounting to P1,029 and common shares and preferred shares of GSMI amounting to P1,947 and P723, respectively.*

Equity Adjustments from Common Control Transactions
This account represents the excess of transfer value over the net assets of SMB and GSMI attributable to SMC. Details are as follows:

	SMB	GSMI	Total
Transfer value	P325,218	P11,131	P336,349
Net assets acquired	7,859	217	8,076
Equity adjustments from common control transactions	P317,359	P10,914	P328,273

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

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

The holders of preferred shares are entitled to participate and receive annual dividends of P1.50 per share which may be cumulative and payable in arrears on December 31 of each year. In addition, the holders of preferred shares may receive a special annual dividend equal to the excess of the aggregate dividends paid or to be paid to common shareholders over P1.50 per preferred share per annum. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Cumulative dividends in arrears as at December 31, 2017 amounted to P294.

c. *Elimination of Intercompany Transactions*

i. Intercompany receivable and payable as at December 31, 2017 have been eliminated as follows:

	2017
Statement of Financial Position	
Trade and other receivables - net	(P46)
Trade payables and other current liabilities	46

ii. SMB acquired the assets of GSMI used in its NAB business under a deed of sale for the property and equipment used in the NAB business (NAB PPE) executed on April 1, 2015 (as amended on April 30, 2015) and a deed of sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials used in the NAB business executed on April 30, 2015.

The elimination of the sale of NAB business by GSMI to SMB for the year ended December 31, 2017 follows:

	2017
Statement of Financial Position	
Property, plant and equipment - net	(P17)
Unappropriated retained earnings	8
Non-controlling interests	9

iii. The share of non-controlling interests in net income of SMB and GSMI for the years ended December 31, 2017 and 2016 are computed as follows:

	2017			2016		
	SMB	GSMI	Total	SMB	GSMI	Total
Net income	P20,178	P602	P20,780	P17,217	P361	P17,578
Non-controlling interests ownership	48.84%	32.01%		48.84%	32.01%	
Share of non-controlling interests in net income	P9,855	P193	P10,048	P8,409	P116	P8,525

iv. Intercompany sale transactions have been eliminated as follows:

	For the Years Ended December 31	
	2017	2016
Statement of Income		
Sales	(P7)	(P39)
Cost of sales	(7)	(39)
Selling and administrative expenses	7	7
Non-controlling interests	3	3

v. The share of non-controlling interests in other comprehensive income of SMB and GSMI for the years ended December 31, 2017 and 2016 are computed as follows:

	2017			2016		
	SMB	GSMI	Total	SMB	GSMI	Total
Other comprehensive income	P613	(P19)	P594	P1,408	(P34)	P1,374
Share of non-controlling interests of SMB	105	-	105	(190)		(190)
	718	(19)	699	1,218	(34)	1,184
Non-controlling interests ownership	48.84%	32.01%		48.84%	32.01%	
Share of non-controlling interests in other comprehensive income	P351	(P7)	P344	P595	(P11)	P584

d. Certain accounts in the consolidated SMFB, SMB and GSMI were reclassified for consistency of financial statements presentation. These reclassifications had no effect on the reported financial performance for any period presented.

6. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments in shares of stock of subsidiaries:

a. On June 8, 2017, the BOD and shareholders of SMFI approved, among others, the: (i) declaration of cash dividends to preferred shareholders amounting to P1,000 million; (ii) increase in SMFI's authorized capital stock by P5,000 million equivalent to 50,000,000 common shares at P100.00 par value per share; and (ii) amendment to the SMFI's Articles of Incorporation to reflect such increase in authorized capital stock and the denial of pre-emptive rights

The increase in capital stock was subscribed by SMFB, of which P1,250 million was paid as deposit for future stock subscription on August 15, 2017.

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 P10,000 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 million consisting of 135,000,000 common shares and 15,000,000 preferred shares at the same par value, and the Certificate of Filing of Amended Articles of Incorporation.

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

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

c. On February 6, 2018, the BOD and stockholders of SMSCCI ratified the increase in its authorized capital stock from P500 million consisting of 50,000,000 common shares to P1,000 million consisting of 100,000,000 common shares both with a par value of P10.00 per share, as previously approved by the BOD and stockholders of SMSCCI on December 14, 2016.

   The increase in capital stock was subscribed by SMFB, of which P200 million was paid as deposit for future stock subscription in 2017.

   On June 25, 2018, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the increase in SMSCCI's authorized capital stock from P500 million consisting of 50,000,000 common shares at a par value of P10.00 per share to P1,000 million consisting of 100,000,000 common shares at the same par value.

d. On June 27, 2018, the BOD and stockholders of RealSnacks approved the following: (i) increase in RealSnacks' authorized capital stock by P9 million consisting of 900,000 common shares with a par value of P10.00 per share; and (ii) amendment to Article VII of Realnacks' Articles of Incorporation to reflect such increase. The application for increase in authorized capital stock is still pending with the SEC as of March 13, 2019.

   On August 8, 2018, a Deed of Assignment was executed between SMFB and SMFI for the sale, assignment and transfer of all its rights, title, and interest in RealSnacks for 25,000 common shares or a total consideration amounting to P0.25 million.

e. On August 31, 2018, SMFB incorporated Brightshore, a wholly owned subsidiary, with an authorized capital stock of P500 million divided into 500,000,000 common shares with a par value P1.00 per share. SMFB subscribed to 125,000,000 common shares for a total consideration of P125 million, of which P31.25 was paid.

   Brightshore was incorporated primarily to engage in the business of acquiring, purchasing, developing, subdividing, improving, holding, managing and selling lots or real properties with or without buildings or improvements, for such consideration and in whatever manner and form as the corporation may determine or the law will permit.

The details of the Group's material non-controlling interests as a result of the consolidation of SMB and GSMI are as follows:

	December 31, 2018		December 31, 2017	
	SMB	**GSMI**	SMB	GSMI
Percentage of non-controlling interests	**48.84%**	**32.01%**	48.84%	32.01%
Carrying amount of non-controlling interests	**P37,395**	**P2,739**	P31,358	P2,338
Net income attributable to non-controlling interests	**P11,866**	**P337**	P10,391	P193
Other comprehensive income attributable to non-controlling interests	**P616**	**P63**	P246	(P7)
Dividends paid to non-controlling interests	**P6,494**	**P -**	P5,639	P -

The following are the financial information of SMB and GSMI:

	December 31, 2018		December 31, 2017	
	SMB	**GSMI**	SMB	GSMI
Current assets	**P48,930**	**P6,938**	P38,953	P6,658
Noncurrent assets	**79,445**	**6,069**	70,330	6,659
Current liabilities	**(32,692)**	**(5,624)**	(12,717)	(7,766)
Noncurrent liabilities	**(22,669)**	**(1,120)**	(35,782)	(537)
Net assets	**P73,014**	**P6,263**	P60,784	P5,014
Sales	**P129,249**	**P24,835**	P113,255	P20,892
Net income	**P23,836**	**P1,053**	P20,711	P602
Other comprehensive income (loss)	**1,232**	**197**	613	(19)
Total comprehensive income	**P25,068**	**P1,250**	P21,324	P583
Cash flows provided by operating activities	**P28,703**	**P2,502**	P26,601	P2,502
Cash flows used in investing activities	**(12,440)**	**(300)**	(6,047)	(217)
Cash flows used in financing activities	**(12,124)**	**(2,178)**	(14,299)	(2,863)
Effect of exchange rate changes on cash and cash equivalents	**452**	**1**	27	-
Net increase (decrease) in cash and cash equivalents	**P4,591**	**P25**	P6,282	(P578)

7. Segment Information

Operating Segments

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

The Group has three reportable segments, namely: Food, Beer and Non-alcoholic Beverage (NAB) and Spirits. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

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

The Beer and NAB segment is engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets.

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

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of trade payables and other current liabilities, and other noncurrent liabilities, excluding interest and dividends payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in the consolidated financial statements.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Financial information about reportable segments follows:

	2018					
	Food*	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Consolidated
Sales						
External	P132,298	P129,245	P24,835	P286,378	P -	P286,378
Inter-segment	1	4	-	5	(5)	-
Total sales	P132,299	P129,249	P24,835	P286,383	(P5)	P286,378
Segment operating result	P8,826	P35,285	P1,832	P45,943	P7	P45,950
Interest expense and other financing charges						(2,998)
Interest income						1,178
Equity in net losses of joint ventures						(83)
Gain (loss) on sale of investments and property and equipment						7
Other income (charges) - net						(693)
Income tax expense						(12,828)
Net income						P30,533
Attributable to:						
Equity holders of the Parent Company						P18,245
Non-controlling interests						12,288
Net income						P30,533
Other Information						
Segments assets	P91,774	P93,510	P11,971	P197,255	(P62)	P197,193
Investments	18	41	280	339	-	339
Goodwill, trademarks and brand names						38,429
Other assets						80
Deferred tax assets						2,463
Consolidated total assets						P238,504
Segment liabilities	P25,705	P15,784	P2,938	P44,427	(P53)	P44,374
Notes payable						21,979
Long-term debt						35,708
Income and other taxes payable						5,602
Dividends and interest payable						673
Deferred tax liabilities						53
Consolidated total liabilities						P108,389
Capital expenditures	P8,496	P5,230	P274	P14,000	P -	P14,000
Depreciation and amortization of property, plant and equipment	1,038	1,388	611	3,037	-	3,037
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	3,170	3,301	87	6,558	-	6,558
Loss on impairment of property, plant and equipment and noncurrent assets	-	544	111	655	-	655

** Includes operating expenses of the Parent Company*

	2017					
	Food*	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Consolidated
Sales						
External	P117,448	P113,250	P20,891	P251,589	P -	P251,589
Inter-segment	1	5	1	7	(7)	-
Total sales	P117,449	P113,255	P20,892	P251,596	(P7)	P251,589
Segment operating result	P9,926	P31,161	P1,307	P42,394	P7	P42,401
Interest expense and other financing charges						(2,658)
Interest income						669
Equity in net losses of joint ventures						(186)
Gain (loss) on sale of investments and property and equipment						-
Other income (charges) - net						(365)
Income tax expense						(11,635)
Net income						P28,226
Attributable to:						
Equity holders of the Parent Company						P17,305
Non-controlling interests						10,921
Net income						P28,226
Other Information						
Segments assets	P77,107	P74,321	P12,169	P163,597	(P63)	P163,534
Investments	12	41	346	399	-	399
Goodwill, trademarks and brand names						38,344
Other assets						35
Deferred tax assets						2,791
Consolidated total assets						P205,103
Segment liabilities	P23,330	P9,559	P2,530	P35,419	(P46)	P35,373
Notes payable						13,939
Long-term debt						34,779
Income and other taxes payable						5,734
Dividends and interest payable						604
Deferred tax liabilities						53
Consolidated total liabilities						P90,482
Capital expenditures	P10,890	P1,747	P217	P12,854	P -	P12,854
Depreciation and amortization of property, plant and equipment	917	1,261	572	2,750	-	2,750
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	2,523	2,623	282	5,428	-	5,428
Loss on impairment of property, plant and equipment	-	534	-	534	-	534

** Includes operating expenses of the Parent Company*

	2016					
	Food*	Beer and Non-alcoholic Beverage	Spirits	Total Reportable Segments	Eliminations	Consolidated
Sales						
External	P111,563	P97,156	P18,560	P227,279	P -	P227,279
Inter-segment	23	4	12	39	(39)	-
Total sales	P111,586	P97,160	P18,572	P227,318	(P39)	P227,279
Segment operating result	P8,931	P27,188	P917	P37,036	P7	P37,043
Interest expense and other financing charges						(3,212)
Interest income						511
Equity in net losses of joint ventures						(97)
Gain on sale of investments and property and equipment						149
Other income (charges) - net						(295)
Income tax expense						(10,097)
Net income						P24,002
Attributable to:						
Equity holders of the of the Parent Company						P14,739
Non-controlling interest						9,263
Net income						P24,002
Other Information						
Segments assets	P62,199	P66,534	P13,747	P142,480	(P73)	P142,407
Investments	12	41	465	518	-	518
Goodwill, trademarks and brand names						38,311
Other assets						17
Deferred tax assets						3,134
Consolidated total assets						P184,387
Segment liabilities	P17,190	P9,062	P2,306	P28,558	(P49)	P28,509
Notes payable						13,124
Long-term debt						37,846
Income and other taxes payable						5,088
Dividends payable and interest payable						636
Deferred tax liabilities						140
Consolidated total liabilities						P85,343
Capital expenditures	P6,467	P1,218	P382	P8,067	P -	P8,067
Depreciation and amortization of property, plant and equipment	983	1,318	581	2,882	-	2,882
Non-cash items and others (excluding depreciation and amortization of property, plant and equipment)	2,549	3,058	298	5,905	-	5,905
Loss on impairment of idle assets	109	-	-	109	-	109

** Includes operating expenses of the Parent Company*

Disaggregation of Revenue:

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments for the years ended December 31, 2018, 2017 and 2016:

	BEER AND NAB			SPIRITS			FOOD			CONSOLIDATED		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Timing of Revenue Recognition												
Sales recognized at point in time	**P129,245**	P113,250	P97,156	**P24,782**	P20,840	P18,513	**P132,241**	P117,408	P111,530	**P286,268**	P251,498	P227,198
Sales recognized over time	-	-	-	**53**	51	47	**57**	40	33	**110**	91	81
Total External Sales	**P129,245**	P113,250	P97,156	**P24,835**	P20,891	P18,560	**P132,298**	P117,448	P111,563	**P286,378**	P251,589	P227,279

8. Cash and Cash Equivalents

This account consists of:

	Note	**2018**	2017
Cash in banks and on hand		**P8,570**	P5,962
Short-term investments		**30,855**	29,578
	33, 34	**P39,425**	P35,540

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 27).

9. Trade and Other Receivables

This account consists of:

	Note	**2018**	2017
Trade		**P17,533**	P16,910
Non-trade		**1,978**	1,568
Amounts owed by related parties	*30*	**1,287**	1,311
		20,798	19,789
Less allowance for impairment losses	*4*	**1,244**	1,552
	4, 33, 34	**P19,554**	P18,237

Trade receivables are non-interest bearing and are generally on a 7 to 60-day term.

Non-trade receivables include advances to contract growers and breeders, receivables from truckers and toll partners, insurance and freight claims, receivables from employees, interest and others.

The movements in the allowance for impairment losses are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P1,552**	P1,728
Adjustment due to adoption of PFRS 9		**(144)**	-
Balance at beginning of year, as adjusted		**1,408**	1,728
Reversal for the year - net		**(132)**	(50)
Amounts written off	*4*	**(40)**	(128)
Cumulative translation adjustments		**8**	2
Balance at end of year		**P1,244**	P1,552

10. Inventories

This account consists of:

	2018	2017
At net realizable value:		
Finished goods and goods in process	**P9,936**	P7,005
Materials and supplies	**22,495**	19,833
Containers	**6,231**	1,520
	P38,662	P28,358

The cost of inventories as of December 31 are as follows:

	2018	2017
Finished goods and goods in process	**P10,202**	P7,195
Materials and supplies	**23,006**	20,339
Containers	**6,810**	1,932
	P40,018	P29,466

The write-down of inventories amounted to P833, P697 and P486 in 2018, 2017 and 2016, respectively (Notes 23 and 24). The Group has written off inventories amounting to P595, P436 and P971 in 2018, 2017 and 2016, respectively.

The allowance for write-down of inventories to net realizable value amounted to P1, 356 and P1,108 as of December 31, 2018 and 2017, respectively.

The cost of inventories used recognized under "Cost of sales" account in consolidated statements of income amounted to P113,969, P98,576 and P93,573 in 2018, 2017 and 2016, respectively (Note 23).

The fair value of agricultural produce less costs to sell, which formed part of the cost of the finished goods inventory, amounted to P128 and P442 as at December 31, 2018 and 2017, respectively, with corresponding costs at point of harvest amounting to P135 and P405, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to (P7), P37 and (P2) in 2018, 2017 and 2016, respectively (Note 22).

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

11. Biological Assets

This account consists of:

	Note	**2018**	2017
Current:			
Growing stocks		**P3,572**	P2,848
Goods in process		**673**	574
		4,245	3,422
Noncurrent:			
Breeding stocks - net		**2,844**	2,695
	4	**P7,089**	P6,117

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	**2018**	2017
Cost			
Balance at beginning of year		**P7,549**	P6,654
Increase (decrease) due to:			
Production		**47,501**	41,012
Purchases		**901**	1,106
Mortality		**(613)**	(677)
Harvest		**(43,947)**	(38,476)
Retirement		**(2,755)**	(2,070)
Balance at end of year		**8,636**	7,549
Accumulated Amortization			
Balance at beginning of year		**1,432**	1,269
Additions	*25*	**2,801**	2,161
Retirement		**(2,686)**	(1,998)
Balance at end of year		**1,547**	1,432
Carrying Amount		**P7,089**	P6,117

The Group harvested approximately 582.5 million and 523.6 million kilograms of grown broilers in 2018 and 2017, respectively, and 0.40 million and 0.59 million heads of marketable hogs and cattle in 2018 and 2017, 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 P42,116 and P42,971 in 2018 and 2017, respectively.

12. Prepaid Expenses and Other Current Assets

This account consists of:

	Note	**2018**	2017
Prepaid income tax		**P2,285**	P1,725
Input tax		**1,945**	2,452
Derivative assets	*33, 34*	**76**	61
Prepaid rent	*30*	**61**	48
Advances to contractors and suppliers		**15**	147
Others	*30*	**766**	439
		P5,148	P4,872

"Others" include prepaid insurance, prepaid promotional expenses, advance payments and deposits, and prepayments for various operating expenses.

"Prepaid rent" and "Others" accounts include amounts owed by related parties amounting to P26 and P26 as of December 31, 2018 and 2017, respectively (Note 30).The methods and assumptions used to estimate the fair value of derivative assets are discussed in Note 34.

13. Investments

This account consists of:

	Note	**2018**	2017
Investments in joint ventures		**P280**	P346
Financial assets at FVOCI	*33, 34*	**59**	-
AFS financial assets	*33, 34*	-	53
	4	**P339**	P399

Investments in Joint Ventures

The movements in investments in joint ventures are as follows:

	2018	2017
Balance at beginning of year	**P346**	P465
Equity in net losses	**(83)**	(186)
Share in other comprehensive income	**17**	67
	P280	P346

a. TSML

GSMI, through GSMIL, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMI owns 44.9% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

The details of the investment in TSML which is accounted for using the equity method are as follows:

	2018	2017
Current assets	**P866**	P846
Noncurrent assets	**1,253**	1,320
Current liabilities	**(1,324)**	(1,394)
Noncurrent liabilities	-	(1)
Net assets	**795**	771
Percentage of ownership	**44.9%**	44.9%
Amount of investment in joint venture	**P357**	P346
Carrying amount of investment in joint venture - net	**P280**	P346

	2018	2017
Sales	**P1,413**	P1,571
Cost of sales	**(1,296)**	(1,464)
Operating expenses	**(84)**	(884)
Other charges	**(47)**	(52)
Net loss	**(14)**	(829)
Percentage of ownership	**44.9%**	44.9%
Share in net loss	**(6)**	(372)
Share in other comprehensive income	**17**	67
Total comprehensive income (loss)	**P11**	(P305)

The recoverable amount of investment in TSML has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash

flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. The determined growth rate is 2%. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections is 9% in 2018 and 2017. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The Group assessed the recoverable amounts of TSML and the result of such assessment was that the carrying amount is higher than its recoverable amount resulting in impairment loss included as part of "Equity in net losses of joint ventures" account in the consolidated statements of income amounting to P83 and P186 in 2018 and 2017, respectively.

The recoverable amount of investment in TSML has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

b. TGT

GSMI, through GSMIHL, also has an existing 44.9% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

The details of the investment in TGT which is accounted for using the equity method are as follows:

	2018	2017
Current Assets	**P27**	P24
Current liabilities	**(956)**	(904)
Noncurrent liabilities	**(1)**	-
Net liabilities	**(930)**	(880)
Percentage of ownership	**44.9%**	44.9%
Amount of investment in joint venture	**(P418)**	(P395)
Carrying amount of investment in joint venture - net	**P -**	P -

	2018	2017
Sales	**P90**	P114
Cost of sales	**(77)**	(98)
Operating expenses	**(17)**	(17)
Net loss	**(4)**	(1)
Percentage of ownership	**44.9%**	44.9%
Share in net loss	**(2)**	-
Share in other comprehensive loss	**(23)**	(40)
Total comprehensive loss	**(P25)**	(P40)

GSMI discontinued recognizing its share in the net liabilities of TGT since the cumulative losses including the share in other comprehensive loss already exceeded the cost of investment. If TGT reports profits subsequently, GSMI resumes recognizing its share of those profits after its share of the profits equals the share of net losses not recognized. Unrecognized share in net liabilities amounted to P418 and P395 as of December 31, 2018 and 2017, respectively.

Financial Assets at FVOCI and AFS Financial Assets

The Group's financial assets at FVOCI and AFS financial assets pertain to investments in shares of stock and club shares. In 2016, investment in shares of stock of PT San Miguel Indonesia Foods and Beverages with carrying amount of P23 was disposed of which resulted in a gain of P13.

The methods and assumptions used to estimate the fair value of financial assets at FVOCI and AFS financial assets are discussed in Note 34.

14. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2017		P11,752	P20,269	P59,100	P3,395	P748	P7,980	P103,244
Additions		699	287	1,566	432	35	9,835	12,854
Disposals/ reclassifications		8	(18)	(519)	(431)	15	(175)	(1,120)
Cumulative translation adjustments		98	300	876	15	1	1	1,291
December 31, 2017		12,557	20,838	61,023	3,411	799	17,641	116,269
Additions		1,598	3,329	5,373	451	301	2,948	14,000
Disposals/ reclassifications		379	(755)	(226)	81	-	391	(130)
Cumulative translation adjustments		66	201	403	14	-	-	684
December 31, 2018		**14,600**	**23,613**	**66,573**	**3,957**	**1,100**	**20,980**	**130,823**
Accumulated Depreciation and Amortization								
January 1, 2017		559	8,509	38,501	2,715	344	-	50,628
Depreciation and amortization	*25*	21	579	1,884	222	44	-	2,750
Disposals/ reclassifications		-	(46)	(563)	(225)	2	-	(832)
Cumulative translation adjustments		-	93	419	11	1	-	524
December 31, 2017		580	9,135	40,241	2,723	391	-	53,070
Depreciation and amortization	*25*	49	593	2,083	259	53	-	3,037
Disposals/ reclassifications		533	(653)	(224)	56	1	-	(287)
Cumulative translation adjustments		1	85	225	10	-	-	321
December 31, 2018		**1,163**	**9,160**	**42,325**	**3,048**	**445**	**-**	**56,141**

Forward

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses							
January 1, 2017	P -	P2,410	P8,560	P63	P -	P -	P11,033
Impairment	-	127	407	-	-	-	534
Disposals/ reclassifications	-	-	(21)	(1)	1	-	(21)
Cumulative translation adjustments	-	164	363	1	-	-	528
December 31, 2017	-	2,701	9,309	63	1	-	12,074
Impairment	-	454	90	-	-	-	544
Disposals/ reclassifications	-	(16)	6	7	-	-	(3)
Cumulative translation adjustments	-	(2)	146	2	-	-	146
December 31, 2018	**-**	**3,137**	**9,551**	**72**	**1**	**-**	**12,761**
Carrying Amount							
December 31, 2017	P11,977	P9,002	P11,473	P625	P407	P17,641	P51,125
December 31, 2018	**P13,437**	**P11,316**	**P14,697**	**P837**	**P654**	**P20,980**	**P61,921**

Depreciation recognized in the consolidated statements of income amounted to P3,037, P2,750 and P2,882 in 2018, 2017 and 2016, respectively (Note 25).

The Group has interest amounting to P173, P61 and P12 which was capitalized in 2018, 2017 and 2016, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.29% to 5.36%, 3.1% to 4.26% and 2.0% to 4.03% in 2018, 2017 and 2016, respectively. The unamortized capitalized borrowing costs amounted to P287, P130 and P83 as of December 31, 2018, 2017 and 2016, respectively.

The carrying amounts of GSMI's unutilized machinery and equipment, net of accumulated impairment losses of P308 as of December 31, 2018 and 2017, amounted to P3 and P10 as of December 31, 2018 and 2017, respectively.

15. Investment Property

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Total
Cost				
January 1, 2017		P2,266	P725	P2,991
Additions		105	-	105
Reclassifications		(650)	-	(650)
Currency translation adjustments		(2)	(3)	(5)
December 31, 2017		1,719	722	2,441
Additions		246	-	246
Disposals		(1)	-	(1)
Currency translation adjustments		-	36	36
December 31, 2018		**1,964**	**758**	**2,722**
Accumulated Depreciation and Amortization				
January 1, 2017		184	319	503
Depreciation and amortization	*25*	-	15	15
Reclassifications		(183)	-	(183)
Currency translation adjustments		(1)	(1)	(2)
December 31, 2017		-	333	333
Depreciation and amortization	*25*	-	17	17
Currency translation adjustments		-	16	16
December 31, 2018		**-**	**366**	**366**
Accumulated Impairment Losses				
December 31, 2017 and 2018		**8**	**-**	**8**
Carrying Amount				
December 31, 2017		P1,711	P389	P2,100
December 31, 2018		**P1,956**	**P392**	**P2,348**

No impairment loss was recognized in 2018, 2017 and 2016.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment property that generated income in 2018, 2017 and 2016.

The fair value of investment property amounting to P3,564 and P3,903 as at December 31, 2018 and 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

The fair value of investment property was determined 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.

16. Goodwill and Other Intangible Assets

This account consists of:

	2018	2017
Goodwill	**P996**	P996
Other intangible assets	**40,950**	40,786
	P41,946	P41,782

Other intangible consists of:

	2018	2017
Trademarks and brand names	**P37,433**	P37,348
Licenses	**2,135**	2,013
Land use rights	**1,189**	1,191
Computer software and licenses	**128**	169
Formulas and recipes	**58**	58
Franchise	**7**	7
	P40,950	P40,786

The movements in other intangible assets with indefinite useful lives are as follows:

	Trademarks and Brand Names	Licenses	Formulas and Recipes and Franchise	Total
Cost				
January 1, 2017	P37,543	P1,829	P65	P39,437
Additions	27	-	-	27
Cumulative translation adjustments	6	184	-	190
December 31, 2017	37,576	2,013	65	39,654
Additions	-	-	-	-
Cumulative translation adjustments	96	122	-	218
December 31, 2018	**37,672**	**2,135**	**65**	**39,872**
Accumulated Impairment Losses				
January 1, 2017 and December 31, 2017	228	-	-	228
Cumulative translation adjustments	11	-	-	11
December 31, 2018	**239**	**-**	**-**	**239**
Carrying Amount				
December 31, 2017	P37,348	P2,013	P65	P39,426
December 31, 2018	**P37,433**	**P2,135**	**P65**	**P39,633**

The movements in other intangible assets with finite useful lives are as follows:

	Note	Land Use Rights	Computer Software and Licenses	Total
Cost				
January 1, 2017		P1,158	P1,298	P2,456
Additions		-	39	39
Disposals/reclassifications		650	(5)	645
Cumulative translation adjustments		45	1	46
December 31, 2017		1,853	1,333	3,186
Additions		-	25	25
Disposals/reclassifications		-	12	12
Cumulative translation adjustments		58	4	62
December 31, 2018		**1,911**	**1,374**	**3,285**
Accumulated Amortization				
January 1, 2017		414	1,047	1,461
Amortization	*25*	40	116	156
Disposals/reclassifications		184	(6)	178
Cumulative translation adjustments		18	1	19
December 31, 2017		656	1,158	1,814
Amortization	*25*	42	81	123
Disposals/reclassifications		-	(2)	(2)
Cumulative translation adjustments		18	3	21
December 31, 2018		**716**	**1,240**	**1,956**
Accumulated Impairment Losses				
December 31, 2017 and 2018		**6**	**6**	**12**
Carrying Amount				
December 31, 2017		P1,191	P169	P1,360
December 31, 2018		**P1,189**	**P128**	**P1,317**

Goodwill, licenses, trademarks and brand names, formulas and recipes, and franchise with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2018		2017	
	Goodwill	**Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise**	Goodwill	Licenses, Trademarks and Brand Names, Formulas and Recipes and Franchise
Food	**P177**	**P3,843**	P177	P3,841
Spirits	**819**	**-**	819	-
Beer and non-alcoholic beverage	**-**	**35,790**	-	35,585
Total	**P996**	**P39,633**	P996	P39,426

Goodwill

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit

to arrive at its terminal value. The growth rates used which range from 2% to 5% in 2018 and 2017, are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 9% to 13% in 2018 and 2017. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

No impairment loss was recognized for goodwill in 2018 and 2017.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Raw Material Price Inflation. Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

Discount Rate. The risk-adjusted weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Trademarks and Brand Names
The recoverable amount of trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections range from 6.0% to 15.1% and 6.4% to 18.8% in 2018 and 2017, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

No impairment loss was recognized for trademarks and brand names in 2018 and 2017.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use (terminal value) are most sensitive to the following assumptions:

Growth Rate. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

Discount Rate. The weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

17. Other Noncurrent Assets

This account consists of:

	Note	**2018**	2017
Deferred containers - net	*4*	**P16,932**	P12,107
Noncurrent receivables and deposits - net	*4, 30, 33, 34*	**526**	574
Others	*30*	**2,151**	1,101
		P19,609	P13,782

The movements in the deferred containers are as follows:

	Note	**2018**	2017
Gross Carrying Amount			
Balance at beginning of year		**P28,157**	P24,306
Additions		**7,399**	4,790
Disposals/reclassifications		**(392)**	(972)
Currency translation adjustments		**1**	33
Balance at end of year		**35,165**	28,157
Accumulated Amortization			
Balance at beginning of year		**16,050**	13,967
Amortization	*25*	**2,610**	2,285
Disposals/reclassifications		**(433)**	(224)
Currency translation adjustments		**6**	22
Balance at end of year		**18,233**	16,050
		P16,932	P12,107

Allowance for impairment losses on Noncurrent receivables and deposits amounted to P164 as of December 31, 2018 and 2017.

"Others" include pallets, kegs and CO2 cylinders, idle assets, defined benefit retirement asset and other noncurrent assets.

Idle assets, net of depreciation and impairment losses, amounted to P55 and P64 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and impairment losses on idle assets amounted to P468 and P457 as of December 31, 2018 and 2017, respectively.

"Noncurrent receivables and deposits" and "Others" accounts include amounts owed by related parties amounting to P112 and P61 as of December 31, 2018 and 2017, respectively (Note 30).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits are discussed in Note 34.

18. Notes Payable

This account consists of:

	Note	**2018**	2017
Peso-denominated		**P21,838**	P13,791
Foreign currency-denominated		**141**	148
	33, 34	**P21,979**	P13,939

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 4.75% to 7.75% and 2.00% to 4.50% in 2018 and 2017, respectively. Interest rates for foreign currency-denominated loans ranged from 9.60% to 9.90% and 6.50% to 9.20% in 2018 and 2017, respectively (Note 27).

Notes payable include interest-bearing loans payable to a related party amounting to P5,352 and P4,530 as at December 31, 2018 and 2017, respectively (Note 30).

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:

	2018	2017
Balance at beginning of year	**P13,939**	P13,124
Changes from financing cash flows:		
Proceeds from borrowings	**164,251**	194,395
Payments of borrowings	**(156,209)**	(193,579)
Total changes from financing cash flows	**21,981**	13,940
Effect of changes in foreign exchange rates	**(2)**	(1)
Balance at end of year	**P21,979**	P13,939

19. Trade Payable and Other Current Liabilities

This account consists of:

	Note	**2018**	2017
Trade		**P20,857**	P18,828
Non-trade		**15,131**	8,496
Amounts owed to related parties	*30*	**6,282**	5,224
Derivative liabilities	*33, 34*	**95**	118
Others		**1,005**	943
	33, 34	**P43,370**	P33,609

Trade payables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade payables include contract growers/breeders' fees and tolling fees.

"Others" include accruals for payroll, interest, repairs and maintenance, freight, trucking and handling and other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 34.

20. Long-term Debt

This account consists of:

	Note	**2018**	2017
Bonds:			
Series C bonds, fixed interest rate of 10.50% maturing in 2019		**P2,809**	P2,804
Series E bonds, fixed interest rate of 5.93% maturing in 2019		**9,995**	9,978
Series F bonds, fixed interest rate of 6.60% maturing in 2022		**6,971**	6,964
Series G bonds, fixed interest rate of 5.50% maturing in 2021		**12,417**	12,398
Series H bonds, fixed interest rate of 6.00% maturing in 2024		**2,523**	2,521
Term note:			
Fixed interest rate of 8.348% with maturities up to 2023		**993**	-
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018		-	114
	33, 34	**35,708**	34,779
Less current maturities		**12,920**	114
		P22,788	P34,665

Bonds
The amount represents unsecured long-term debt incurred by SMB: (a) to finance its acquisition of SMC's interest in IBI and BPI; (b) to support the redemption of the Series A bonds which matured on April 3, 2012; (c) to support the partial prepayment of the US$300 unsecured loan facility agreement (which was paid in full in 2013); and (d) to support the redemption of the Series B bonds which matured on April 4, 2014.

SMB's unsecured long-term notes comprise the Philippine peso-denominated fixed rate bonds in the aggregate principal amount of: (a) P2,810 pertaining to the aggregate principal amount of the Series C bonds which remain outstanding of the P38,800 bonds (P38,800 Bonds) which were issued on April 3, 2009 (P38,800 Bonds Issue Date); (b) P17,000 pertaining to the aggregate principal amount of Series E and F bonds which remain outstanding out of the P20,000 bonds (P20,000 Bonds) which were issued on April 2, 2012 (P20,000 Bonds Issue Date); and (c) P15,000 (P15,000 Bonds) which were issued on April 2014 (P15,000 Bonds Issue Date).

The P38,800 Bonds, which originally consisted of the Series A bonds (with a term of three years from the P38,800 Bonds Issue Date), the Series B bonds (with a term of five years and one day from the P38,800 Bonds Issue Date), and the Series C bonds (with a term of ten years from the P38,800 Bonds Issue Date), were sold to the public pursuant to a registration statement that was rendered effective and permit to sell issued, by the SEC on March 17, 2009. The P38,800 Bonds were listed on the PDEx on November 17, 2009. The Series A bonds matured on April 3, 2012 and were accordingly redeemed by SMB on April 3, 2012. Part of the proceeds of SMB's P20,000 Bonds were used to pay such maturity. The Series B bonds with an aggregate principal amount of P22,400 matured on April 4, 2014 and were accordingly redeemed by SMB on April 4, 2014. The proceeds of SMB's P15,000 Bonds were used to partially pay such maturity. Only the Series C bonds remain outstanding of the P38,800 Bonds. Unamortized debt issue costs related to the Series C bonds amounted to P1 and P6 as of December 31, 2018 and 2017, respectively.

The P20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the P20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the P20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the P20,000 Bonds Issue Date). The P20,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 16, 2012. The Series E bonds and Series F bonds were listed on the PDEx for trading on April 2, 2012, while the Series D bonds were listed on the PDEx for trading on October 3, 2012. The Series D bonds with an aggregate principal amount of P3,000 matured on April 3, 2017 and was accordingly

redeemed by SMB on the said date. The Series E bonds and the Series F bonds remain outstanding of the P20,000 Bonds. Unamortized debt issue costs related to the Series E and F bonds amounted to P34 and P58 as of December 31, 2018 and 2017, respectively.

The P15,000 Bonds consist of the Series G bonds (with a term of seven years from the P15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the P15,000 Bonds Issue Date). The P15,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEx for trading on April 2, 2014. Unamortized debt issue costs related to the P15,000 Bonds amounted to P60 and P81 as of December 31, 2018 and 2017, respectively.

Interest on the Series C bonds are paid semi-annually, every April 3 and October 3 of each year. Interest on the P20,000 Bonds are paid semi-annually every April 2 and October 2 of each year (each, a P20,000 Bonds Interest Payment Date), save for the first interest payment of the Series D bonds which was made on October 3, 2012. SMB may (but shall not be obligated to) redeem all (and not a part only) of the outstanding P20,000 Bonds on the day after the 10th P20,000 Bonds Interest Payment Date for the Series E bonds, and the 14th P20,000 Bonds Interest Payment Date for the Series F Bonds. Interest on the P15,000 Bonds are paid every April 2 and October 2 of each year (each, a P15,000 Bonds Interest Payment Date). SMB may also (but shall likewise not be obligated to) redeem all (and not a part only) of the outstanding P15,000 Bonds on the 11th P15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th P15,000 Bonds Interest Payment Dates for the Series H bonds.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a solicitation process for the consents of the majority of the holders of record as of December 15, 2014 of SMB's Series C bonds, Series D bonds, Series E bonds and Series F bonds (Series CDEF Bonds Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to align the same with the negative covenants of the trust agreement covering the Series G bonds and Series H bonds (Series GH Bonds Trust Agreement), and allow SMB to engage, or amend its Articles of Incorporation to engage, in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Series CDEF Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C bonds and 81.05% of the combined outstanding aggregate principal amount of the Series D bonds, Series E bonds and Series F bonds, for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said bonds on February 2, 2015.

To allow SMB to remain under the effective control of SMC through SMFB in the implementation of the SMFB Consolidation (and thus ensure that the trust agreements covering SMB's outstanding bonds remain consistent with their original intended purpose) as discussed in Note 1, the BOD of SMB, in its meeting on November 3, 2017, approved the conduct of a solicitation process for the consents of the majority of the holders of record as of November 8, 2017 of SMB's Series C bonds, Series E bonds and Series F bonds (Series CEF Bonds Record Bondholders) to align the change in control default provision under the trust agreements covering the Series C bonds, Series E bonds and Series F bonds with the change in control default provision under the Series GH Bonds Trust Agreement (Change in Control Amendment). Under the Series GH Bonds Trust Agreement, a change in control of SMB occurs when SMC ceases to have the ability to consolidate SMB as a subsidiary in its consolidated financial statements in accordance with the accounting principles and standards applicable to SMC then in effect.

SMB obtained the consents of the Series CEF Record Bondholders representing 88.28% of the outstanding aggregate principal amount of the Series C bonds, and 78.1803% of the combined outstanding aggregate principal amount of the Series E bonds and Series F bonds, for the Change in Control Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series E bonds and Series F bonds to reflect the Change in Control Amendment were executed by SMB and the respective trustees of the said bonds on December 19, 2017.

Term Note

On August 13, 2018, GSMI entered into a long-term, interest-bearing loan from a local bank amounting to P1,000 for the purpose of refinancing its exiting short-term loan obligations. On September 24, 2018, the loan was drawn down from the credit facility. The loan is carried at amortized cost and bears annual interest rate at

Philippine peso fixed-rate of 8.348%. The loan is payable for five years, in equal quarterly installments which will commence in September 2019.

As of December 31, 2018, the outstanding balance of the term note amounted to P1,000. Unamortized debt issue costs related to the term note amounted to P7 as of December 31, 2018.

GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to P800. The proceeds of the loan was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

The loan is payable up to nine years from and after the initial date of borrowing, but in no case later than September 30, 2018 (expiry date of memorandum of agreement), inclusive of a grace period of two years on principal repayment. The loan is payable in equal quarterly installments on the Principal Repayment Dates which commenced on February 18, 2012.

EPSBPI agrees to pay interest on the outstanding principal amount of borrowings on each interest payment date ending per annum equivalent to the higher of benchmark rate plus a spread of one percent or the overnight rate. Benchmark rate is the three-month PDST-R2 rate as displayed in the PDEx page on the first day of each interest period. While overnight rate means BSP overnight reverse repo rate on interest rate settling date.

EPSBPI settled the loan on September 28, 2018.

The Group is in compliance with the covenants of the debt agreements as of December 31, 2018 and 2017.

Interest expense recognized in the consolidated statements of income follows:

	Note	**2018**	2017
Bonds		**P2,188**	P2,235
Term note		**24**	6
	27	**P2,212**	P2,241

The movements in debt issue costs are as follows:

	Note	**2018**	82017
Balance at beginning of year		**P145**	P193
Addition		**8**	-
Amortization	27	**(51)**	(48)
Balance at end of year		**P102**	P145

Repayment Schedule

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

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2019	P12,928	P8	P12,920
2020	235	1	234
2021	12,697	46	12,651
2022	7,235	30	7,205
2023	177	2	175
2024	2,538	15	2,523
	P35,810	**P102**	**P35,708**

Changes in liabilities arising from financing activities are as follows:

	2018	2017
Balance at beginning of the year	**P34,779**	P37,846
Proceeds from borrowings	**992**	-
Payment of borrowings	**(114)**	(3,115)
Amortization of debt issue costs	**51**	48
Balance at end of year	**P35,708**	P34,779

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 33.

21. Equity

Capital Stock

As at December 31, 2018 and 2017, the Parent Company's capital stock, at P1.00 par value per common share and P10.00 par value per preferred share, consists of the following number of shares:

	Note	Common	Preferred
Issued shares at beginning of period		170,874,854	30,000,000
Additional number of shares due to stock split	*1*	1,537,873,686	-
Share swap transaction	*1, 5*	4,242,549,130	-
Treasury shares		(42,077,580)	(15,000,000)
Issued and outstanding at end of period		5,909,220,090	15,000,000
Authorized shares		11,600,000,000	40,000,000

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

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

The Parent Company, through its underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of P1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Parent Company, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events), as well as on the 3rd anniversary from issuance date or on any dividend payment date thereafter, as and if declared by the BOD. Unless the preferred shares are redeemed by the Parent Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On February 3, 2015, the Parent Company's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

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

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

On January 20, 2015, the BOD of the PSE approved, subject to SEC approval and certain conditions, the application of the Parent Company to list up to 15,000,000 perpetual series "2" preferred shares (FBP2 Shares)

with a par value of P10.00 per share to cover the Parent Company's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Parent Company's Registration Statement covering the registration of up to 15,000,000 FBP2 Shares at an offer price of P1,000.00 per share (the "FBP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on the Parent Company's application to list up to 15,000,000 FBP2 Shares with a par value of P10.00 per share to cover the FBP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the Parent Company's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the FBP2 Shares Offering, management determined the terms of the FBP2 Shares (Terms of the Offer), including the initial dividend rate for the FBP2 Shares at 5.6569% per annum.

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

The Parent Company, through its underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of P1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of the Parent Company, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by the Parent Company on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by the Parent Company, and issued the Order of Registration of up to 15,000,000 FBP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the Parent Company's 15,000,000 FBP2 Shares with par value of P10.00 per share were issued and listed with the PSE.

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

As at December 31, 2018, the Parent Company has a total of 156 and 106 common and preferred stockholders, respectively.

Treasury Shares

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

Retained Earnings

Unappropriation

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 of December 31, 2018 and 2017 is restricted in the amount of P182 representing the cost of common shares held in treasury.

Appropriation
The BOD of certain subsidiaries approved additional appropriations amounting to P10,934 and P5,019 for the years ended December 31, 2018 and 2017, respectively, to finance ongoing expansion projects and the redemption of the Series C bonds and the Series E bonds which will mature in April 2019.

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

2018

Class of Shares	**Date of Declaration**	**Date of Record**	**Date of Payment**	**Dividend Per Share**
Common	February 1, 2018	February 19, 2018	March 1, 2018	**P2.00**
	May 9, 2018	May 24, 2018	June 8, 2018	**0.20**
	August 8, 2018	August 23, 2018	September 6, 2018	**0.40**
	October 8, 2018	October 22, 2018	October 31, 2018	**0.40**
Preferred				
FBP2	February 1, 2018	February 19, 2018	March 12, 2018	**14.14225**
	May 9, 2018	May 24, 2018	June 13, 2018	**14.14225**
	August 8, 2018	August 23, 2018	September 12, 2018	**14.14225**
	November 13, 2018	November 27, 2018	December 12, 2018	**14.14225**

2017

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	February 2, 2017	February 17, 2017	March 1, 2017	P1.50
	May 9, 2017	May 24, 2017	June 8, 2017	1.50
	August 9, 2017	August 24, 2017	September 7, 2017	1.50
	November 9, 2017	November 28, 2017	December 8, 2017	1.50
Preferred				
FBP2	February 2, 2017	February 17, 2017	March 13, 2017	14.14225
	May 9, 2017	May 24, 2017	June 13, 2017	14.14225
	August 9, 2017	August 24, 2017	September 12, 2017	14.14225
	November 9, 2017	November 28, 2017	December 12, 2017	14.14225

22. Revenues

This account consists of:

	2018	2017	2016
Sale of goods	**P286,275**	P251,461	P227,200
Service revenues and others	**110**	91	81
Fair valuation adjustments on agricultural produce - net	**(7)**	37	(2)
	P286,378	P251,589	P227,279

23. Cost of Sales

This account consists of:

	Note	**2018**	2017	2016
Inventories	*10*	**P113,969**	P98,576	P93,753
Taxes and licenses		**59,858**	52,613	43,026
Communications, light, fuel and water		**5,862**	4,987	4,016
Depreciation and amortization	*25*	**5,215**	4,339	4,144
Personnel	*26*	**3,614**	3,128	2,825
Freight, trucking and handling		**3,187**	2,701	2,487
Repairs and maintenance		**1,419**	1,079	1,000
Rent	*4, 32*	**346**	325	316
Write-down of inventories to net realizable value	*10*	**102**	209	119
Others		**664**	503	422
		P194,236	P168,460	P152,108

24. Selling and Administrative Expenses

This account consists of:

	2018	2017	2016
Selling	**P27,420**	P23,657	P21,877
Administrative	**18,772**	17,071	16,251
	P46,192	P40,728	P38,128

Selling expenses of:

	Note	**2018**	2017	2016
Freight, trucking and handling		**P9,043**	P7,822	P7,288
Advertising and promotions		**7,788**	7,036	6,046
Personnel	*26*	**3,237**	2,949	2,777
Contracted services		**2,965**	2,448	2,256
Rent	*4, 32*	**1,948**	1,917	1,674
Taxes and licenses		**518**	414	350
Depreciation and amortization	*25*	**298**	327	296
Write-down of inventories to net realizable value	*10*	**131**	54	117
Others		**1,492**	690	1,073
		P27,420	P23,657	P21,877

Administrative expenses consist of:

	Note	**2018**	2017	2016
Personnel	*26*	**P6,806**	P6,303	P5,847
Depreciation and amortization	*25*	**3,294**	2,922	3,431
Contracted services		**1,908**	1,631	1,369
Rent	*4, 32*	**1,092**	980	832
Management fees		**1,041**	867	853
Taxes and licenses		**979**	524	707
Corporate special program		**752**	710	424
Write-down of inventories to net realizable value	*10*	**600**	434	250
Repairs and maintenance		**564**	456	466
Professional fees		**497**	392	404
Communications, light, fuel and water		**357**	375	359
Insurance		**325**	308	299
Supplies		**229**	222	261
Travel and transportation		**256**	225	226
Others		**72**	722	523
		P18,772	P17,071	P16,251

25. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2018**	2017	2016
Cost of sales:				
Property, plant and equipment	*14*	**P2,340**	P2,109	P2,134
Biological assets	*11*	**2,801**	2,161	1,947
Deferred containers and others	*17*	**74**	69	63
	23	**5,215**	4,339	4,144
Selling and administrative expenses:				
Property, plant and equipment	*14*	**697**	641	748
Deferred containers and others	*17*	**2,895**	2,608	2,979
	24	**3,592**	3,249	3,727
		P8,807	P7,588	P7,871

"Others" include depreciation of investment property and amortization of land use rights, computer software and licenses and pallets, kegs and CO2 cylinders.

26. Personnel Expenses

This account consists of:

	Note	**2018**	2017	2016
Salaries and allowances		**P8,122**	P7,323	P6,903
Retirement costs	*29*	**987**	915	841
Other employee benefits		**4,548**	4,142	3,705
		P13,657	P12,380	P11,449

Personnel expenses are distributed as follows:

	Note	**2018**	2017	2016
Cost of sales	*23*	**P3,614**	P3,128	P2,825
Selling expenses	*24*	**3,237**	2,949	2,777
Administrative expenses	*24*	**6,806**	6,303	5,847
		P13,657	P12,380	P11,449

27. Other Income and Charges

These accounts consist of:

(a) Interest Expense and Other Financing Charges

	2018	2017	2016
Interest expense	**P2,736**	P2,541	P3,092
Other financing charges	**262**	117	120
	P2,998	P2,658	P3,212

Amortization of debt issue costs included as part of "Other financing charges" amounted to P51, P48 and P51 in 2018, 2017 and 2016, respectively (Note 20).

Interest expense on notes payable, long-term debt and other liabilities is as follows:

	Note	**2018**	2017	2016
Notes payable	*18*	**P523**	P300	P430
Long-term debt	*20*	**2,212**	2,241	2,652
Others		**1**	-	10
		P2,736	P2,541	P3,092

(b) Interest Income

	Note	**2018**	2017	2016
Interest from short-term investments, cash in banks and others		**P1,157**	P647	P490
Interest on amounts owed by related parties	*30*	**21**	22	21
		P1,178	P669	P511

(c) Other Income (Charges)

	Note	**2018**	2017	2016
Rent income	*32*	**P171**	P153	P131
Gain (loss) on foreign exchange - net	*33*	**(81)**	62	40
Gain on sale of scrap materials		**50**	26	30
Gain (loss) on derivatives - net	*34*	**(136)**	8	(271)
Additional provision on impairment (a)	*14*	**(655)**	(534)	(109)
Others - net (b)		**(42)**	(80)	(116)
		(P693)	(P365)	(P295)

a. Hong Kong Operations

In 2018, due to the fierce market competition in Hong Kong, SMB tested the related production plant located in Yuen Long, New Territories for impairment.

SMB assessed the recoverable amounts of SMBHK's production plant and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P2,067. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P544 in 2018.

The recoverable amount of SMBHK' is determined based on a value in use calculation and the cash flows are discounted using a discount rate of 10.2%. The discount rate used is pre-tax and reflects specific risks relating to the Hong Kong brewing operations.

As SMBHK's asset has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

North China Operations

In 2017, the Group incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecasted sales. These factors, among others, are indications that noncurrent assets of the Group's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired.

The Group assessed the recoverable amounts of SMBB's assets and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P1,262. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P534 in 2017.

As SMBB's assets has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of SMBB's assets has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 17 years, which is the remaining estimated useful life of the assets. Cash flows beyond ten-year period are kept constant.

Sales volume growth rate and pre-tax discount rate used for value in use calculation were 2%-20% and 11%, respectively.

Management determined the growth rate and gross contribution rate based on past experiences and future plans and expected market trends.

b. "Others - net" include casualty loss, loss on retirement of breeding stocks and expenses of closed facilities. The depreciation of assets recognized as idle amounting to P8, P27 and P57 in 2018, 2017 and 2016, respectively, is also presented as part of this account.

28. Income Taxes

(a) Deferred tax asset and liabilities as at December 31 arise from the following:

	2018	2017
Net defined benefit retirement obligation and equity reserve for retirement plan	**P1,150**	P1,612
Allowance for impairment losses on receivables and write-down of inventories	**889**	898
NOLCO	**153**	83
Unrealized loss on derivatives - net	**40**	45
MCIT	**7**	11
Others	**171**	89
	P2,410	P2,738

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2018**	2017
Deferred tax assets	*4*	**P2,463**	P2,791
Deferred tax liabilities		**(53)**	(53)
		P2,410	P2,738

The movements of deferred tax assets and liabilities are accounted for as follows:

					December 31, 2018		
	Balance at Beginning of Year	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Change in Accounting Policy**	**Balance at End of Year**	**Deferred Tax Asset**	**Deferred Tax Liability**
Net defined benefit retirement obligation and equity reserve for retirement plan	**P1,612**	**(P204)**	**(P258)**	**P -**	**P1,150**	**P1,133**	**P17**
Allowance for impairment losses on receivables and write-down of inventories	**898**	**35**	**-**	**(44)**	**889**	**888**	**1**
NOLCO	**83**	**70**	**-**	**-**	**153**	**153**	**-**
MCIT	**11**	**(4)**	**-**	**-**	**7**	**7**	**-**
Unrealized loss on derivatives - net	**45**	**(5)**	**-**	**-**	**40**	**40**	**-**
Others	**89**	**82**	**-**	**-**	**171**	**242**	**(71)**
	P2,738	**(P26)**	**(P258)**	**(P44)**	**P2,410**	**P2,463**	**(P53)**

					December 31, 2017		
	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Change in Accounting Policy	Balance at End of Year	Deferred Tax Asset	Deferred Tax Liability
Net defined benefit retirement obligation and equity reserve for retirement plan	P1,569	(P10)	P53	P -	P1,612	P1,611	P1
Allowance for impairment losses on receivables and write-down of inventories	878	20	-	-	898	898	-
NOLCO	104	(21)	-	-	83	83	-
MCIT	259	(248)	-	-	11	11	-
Unrealized loss on derivatives - net	106	(61)	-	-	45	45	-
Others	78	11	-	-	89	143	(54)
	P2,994	(P309)	P53	P -	P2,738	P2,791	(P53)

As at December 31, 2018, 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:

Year Incurred/Paid	Carryforward Benefits Up to	NOLCO	MCIT
2017	December 31, 2020	P98	P7
2018	December 31, 2021	414	-
		P512	P7

Temporary differences on the combined carryforward benefits of MCIT and NOLCO amounting to P175, P197 and P170 as of December 31, 2018, 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:

	2018	2017	2016
Current	**P12,802**	P11,326	P10,189
Deferred	**26**	309	(92)
	P12,828	P11,635	P10,097

(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:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subjected to final tax	**(0.76%)**	(0.43%)	(0.36%)
Others - net	**0.34%**	(0.38%)	(0.03%)
Effective income tax rates	**29.58%**	29.19%	29.61%

29. Retirement Plan

SMFB, SMB and GSMI, including majority of their subsidiaries, have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering certain number of their permanent employees. The Retirement Plans pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2018. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the Bureau of Internal Revenue as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of Retirement Plans are vested in the Board of Trustees (BOT) of each Retirement Plan. Majority of the BOT of the Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of SMFB, SMB, GSMI and their subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by Retirement Funds Office of SMC.

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance at beginning of year	**P15,606**	P13,793	**(P17,697)**	(P15,836)	**P -**	(P5)	**(P2,091)**	(P2,048)
Recognized in Profit or Loss								
Service costs	**-**	-	**(864)**	(812)	**-**	-	**(864)**	(812)
Interest expense	**-**	-	**(991)**	(793)	**-**	-	**(991)**	(793)
Interest income	**868**	690	**-**	-	**-**	-	**868**	690
	868	690	**(1,855)**	(1,605)	**-**	-	**(987)**	(915)
Recognized in Other Comprehensive Income								
Remeasurements:								
Actuarial gains (losses) arising from:								
Experience adjustments	**-**	-	**(1,287)**	(1,944)	**-**	-	**(1,287)**	(1,944)
Changes in financial assumptions	**-**	-	**2,232**	784	**-**	-	**2,232**	784
Changes in demographics assumptions	**-**	-	**(92)**	148	**-**	-	**(92)**	148
Return on plan assets excluding interest income	**(2)**	858	**-**	-	**-**	-	**(2)**	858
Changes in the effect of asset ceiling	**-**	-	**-**	-	**(1)**	5	**(1)**	5
	(2)	858	**853**	(1,012)	**(1)**	5	**850**	(149)
Others								
Contributions	**1,033**	1,001	**-**	-	**-**	-	**1,033**	1,001
Benefits paid	**(1,086)**	(737)	**1,094**	749	**-**	-	**8**	12
Other adjustments	**26**	1	**(24)**	7	**-**	-	**2**	8
	(27)	265	**1,070**	756	**-**	-	**1,043**	1,021
Balance at end of year	**P16,445**	P15,606	**(P17,629)**	(P17,697)	**(P1)**	P -	**(P1,185)**	(P2,091)

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 amounted to P987, P915 and P841 in 2018, 2017 and 2016, respectively (Note 26).

The above net defined benefit retirement liability was included in the consolidated statements of financial position as part of:

	Note	**2018**	2017
Other noncurrent assets	*17*	**P9**	P12
Other noncurrent liabilities		**(1,194)**	(2,103)
		(P1,185)	(P2,091)

The carrying amounts of the Group's retirement fund approximate fair values as at December 31, 2018 and 2017.

The Group's plan assets consist of the following:

	In Percentages	
	2018	2017
Investments in marketable securities and shares of stock	**68.8**	59.8
Investments in pooled funds:		
Stock trading portfolio	**8.4**	11.8
Fixed income portfolio	**15.5**	16.2
Investments in real estate	**0.7**	0.5
Others	**6.6**	11.7

Investments in Marketable and Debt Securities

As of December 31, 2018, the plan assets include:

- 25,804,310 common shares, 3,782,950 Subseries "2-B", 2,836,300 Subseries "2-D", 2,771,890 Subseries "2-E", 8,028,970 Subseries "2-F", 64,230 Subseries "2-G", 215,440 Subseries "2-H" and 6,346,570 Subseries "2-I" preferred shares of SMC with fair market value per share of P147.00, P75.00, P74.95, P73.00, P75.00, P74.90, 74.50 and P79.80, respectively;
- Investment in SMC bonds amounting to P658;
- 5,105,900 common shares and 250,000 preferred shares of Petron Corporation (Petron) with fair market value per share of P7.71 and P980.00, respectively;
- Investment in Petron bonds amounting to P44;
- 28,549,900 common shares of SMB with fair market value per share of P20.00;
- Investment in SMB bonds amounting to P788;
- 10,983,349 common shares of GSMI with fair market value per share of P26.75;
- 2,251,100 common shares and 200,000 FBP2 shares of SMFB with fair market value per share of P82.00 and P997.00, respectively;
- 3,142,083 common shares of Top Frontier with fair market value per share of P249.80;
- Investment in South Luzon Tollway Corporation (SLTC) bonds amounting to P228; and
- Investment in SMC Global Power Holdings Corp. (SMC Global) bonds amounting to P190.

As of December 31, 2017, the plan assets include:

- 22,246,890 common shares, 783,000 Subseries "2-B", 2,712,300 Subseries "2-D", 2,666,700 Subseries "2-E", 8,000,000 Subseries "2-F" and 6,153,600 Subseries "2-I" preferred shares of SMC with fair market value per share of P111.60, P76.50, P75.65, P76.50, P81.95 and P79.80, respectively;
- Investment in SMC bonds amounting to P367;
- 250,000 preferred shares of Petron Corporation (Petron) with fair market value per share of P1,060.00;
- Investment in Petron bonds amounting to P144;
- 28,549,900 common shares of SMB with fair market value per share of P20.00;
- Investment in SMB bonds amounting to P816;
- 14,883,385 common shares of GSMI with fair market value per share of P26.85;
- 225,110 common shares and 250,000 FBP2 shares of SMFB with fair market value per share of P529.00 and P1,000.00, respectively;
- 3,121,413 common shares of Top Frontier with fair market value per share of P286.00;
- Investment in South Luzon Tollway Corporation (SLTC) bonds amounting to P226; and
- Investment in SMC Global Power Holdings Corp. (SMC Global) bonds amounting to P197.

The fair market value per share of the above shares of stock is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized gains on the investment in marketable securities of SMC and its subsidiaries amounting to P568 and P844 in 2018 and 2017, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to P197 and P185 in 2018 and 2017, respectively.

Investments in Shares of Stock

The Group's plan assets also include SMB Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI (inclusive of nominee shares), accounted for under the cost method, amounting to P769 and P480 as of December 31, 2018 and 2017, respectively (Note 30).

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of SMC and its domestic subsidiaries to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The BOT of the Group's Retirement Plans approved the percentage of assets to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment income and expenses are allocated to the plans based on their pro-rata share in net assets of pooled funds. The Retirement Plans' interests in the net assets of the pooled funds were 57.4% and 55.5% of fixed income portfolio as of December 31, 2018 and 2017, respectively. The Retirement Plans' interests in net assets of the pooled funds were 68.1% and 75.2% of stock trading portfolio as of December 31, 2018 and 2017, respectively.

Approximately 48.7% and 36.3% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2018 and 2017, respectively.

Approximately 43.4% and 37.9% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2018 and 2017, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P118 and P69 as of December 31, 2018 and 2017, respectively.

Others

Others include the Retirement Plans' investments in government securities, cash and cash equivalents and receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute the amount of P1,050 to the Retirement Plans in 2019.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2018	2017
Discount rate	**7.34% - 8.50%**	5.70% - 7.00%
Salary increase rate	**7.00% - 8.00%**	7.00% - 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 6.0 to 14.10 years and 6.80 to 13.80 years as of December 31, 2018 and 2017 respectively.

As of December 31, 2018 and 2017, 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:

	2018		2017	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,094)**	**P1,242**	(P1,279)	P1,494
Salary increase rate	**1,243**	**(1,106)**	1,326	(1,157)

In 2018 and 2017, the Group's transaction relating to the Retirement Plans pertain to the contribution for the period.

BLI has amounts owed to SMB Retirement Plan amounting to P5 as of December 31, 2018 and 2017, included as part of "Trade payables and other current liabilities" account in the consolidated statements of financial position (Notes 19 and 30).

30. 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
Intermediate Parent Company	**2018**	**P112**	**P1,895**	**P140**	**P251**	On demand; non-interest bearing	Unsecured; no impairment
	2017	89	1,998	112	557		
Entities under Common Control of the Intermediate Parent Company	**2018**	**675**	**26,615**	**722**	**5,950**	On demand; non- interest bearing	Unsecured; no impairment
	2017	664	19,952	594	4,571		
Joint Venture	**2018**	**21**	**1,036**	**543**	**64**	On demand; interest bearing	Unsecured; no impairment
	2017	22	952	688	94		
Retirement Plan	**2018**				**305**	On demand; non-interest bearing	Unsecured; no impairment
	2017	-	-	-	5		
Associate of Intermediate Parent Company	**2018**				**5,352**	Less than 3 months; interest bearing	Unsecured; no impairment
	2017	-	-	-	4,530		
Shareholders in Subsidiaries and its Affiliates	**2018**	**104**	**1,513**	**20**	**18**	On demand; non-interest bearing	Unsecured; no impairment
	2017	174	493	4	31		
Total	**2018**	**P912**	**P31,059**	**P1,425**	**P11,940**		
Total	2017	P949	P23,395	P1,398	P9,788		

a. Amounts owed by related parties consist of current and noncurrent receivables, deposits and share in expenses (Notes 9, 12 and 17).

b. Amounts owed to related parties consist of trade and non-trade payables (Note 19). Amounts owed to related parties included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P306 and P34 as of December 31, 2018 and 2017, respectively.

On August 3, 2018, the stockholders of BPI approved the increase of authorized capital stock from P1,600 to P2,600 which shall be divided into 5,200,000 common shares with a par value of P350 and 7,800,000 preferred shares with a par value of P100. BPI received P300 as deposit for future stock subscription from San Miguel Brewery Inc. Retirement Plan (SMBRP) and included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position as of December 31, 2018. As of December 31, 2018, the application for the increase in capital stock was not yet filed with SEC (Note 29).

c. Amounts owed to associate of the Intermediate Parent Company represent interest bearing loans payable to Bank of Commerce presented as part of "Notes payable" account in the consolidated statements of financial position (Note 18).

d. The Group has entered into various lease agreements with related parties as a lessor and lessee (Note 32).

e. TSML executed various promissory notes in favor of GSMI.

- Principal sum of THB250 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
- Principal sum of THB50 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
- Principal sum of THB25 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
- Principal sum of THB75 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
- Principal sum of THB75 together with interest of 3.0% per annum, which interest shall accrue on April 7, 2011.

The principal sum is due and payable in full on demand of GSMI and the stipulated interest shall be payable every three months.

The receivables from TSML amounting to P543 and P688 as ofDecember 31, 2018 and 2017, respectively, are included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 9).

Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to P21, P22 and P21 in 2018, 2017 and 2016, respectively (Note 27).

f. The compensation of the key management personnel of the Group, by benefit type, follows:

	Note	**2018**	2017	2016
Short-term employee benefits		**P234**	P170	P130
Retirement costs (benefits)	*29*	**(8)**	11	8
		P226	P181	P138

31. Basic and Diluted Earnings per Common Share

Basic EPS is computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	**P18,245**	P17,305	P14,739
Dividends on preferred shares	**849**	849	849
Net income attributable to equity holders of the Parent Company (a)	**P17,396**	P16,456	P13,890
Common shares issued and outstanding (in millions)	**P5,909**	P5,909	P5,909
Weighted average number of common shares (in millions) (b)	**P5,909**	5,909	5,909
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**P2.94**	P2.78	P2.35

As at December 31, 2018, 2017 and 2016, the Group has no dilutive equity instruments.

32. Lease Commitments

Operating Leases

Group as Lessor

The Group has entered into lease agreements on its investment property, offices and machinery and equipment. The non-cancellable leases have lease term of one to five years. Some lease agreements include a clause to enable upward revision of the rental change on an accrual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2018	2017	2016
Within one year	**P180**	P151	P111
After one but not more than five years	**228**	134	83
	P408	P285	P194

Rent income recognized in the consolidated statements of income amounted to P171, P153 and P131 in 2018, 2017 and 2016, respectively (Notes 4 and 27).

Group as Lessee

The Group leases a number of equipment, offices, warehouses, factory facilities and parcels of land under operating lease. The leases will expire in various terms. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2018	2017	2016
Within one year	**P183**	P175	P150
After one but not more than five years	**382**	438	270
After five years	**2,331**	1,748	1,340
	P2,896	P2,361	P1,760

Rent expense recognized in the consolidated statements of income amounted to P3,386, P3,222 and P2,822 in 2018, 2017 and 2016, respectively (Notes 4, 23 and 24).

33. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at FVPL and FVOCI, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, trade payables and other current liabilities, excluding dividends payable and statutory liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity options and currency options and 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 terms and maturity profile of the interest-bearing long-term borrowings, together with its gross amounts, are shown in the following tables:

December 31, 2018	**<1 Year**	**>1 - 3 Years**	**>3 - 5 Years**	**>5 Years**	**Total**
Fixed Rate					
Philippine peso-denominated	**P12,928**	**P12,932**	**P7,412**	**P2,538**	**P35,810**
Interest rate	**5.93%-10.5%**	**5.50-8.348%**	**.60-8.348%**	**6%**	**-**
	P12,928	**P12,932**	**P7,412**	**P2,538**	**P35,810**

December 31, 2017 (As Restated)	<1 Year	>1 - 3 Years	>3 - 5 Years	>5 Years	Total
Floating Rate					
Philippine peso-denominated	P114	P -	P -	P -	P114
Interest rate	PDST-R2+ margin or BSP overnight rate, whichever is higher				
Fixed Rate					
Philippine peso-denominated	-	12,810	19,462	2,538	34,810
Interest rate	-	5.93%-10.5%	5.5%-6.6%	6%	-
	P114	P12,810	P19,462	P2,538	P34,924

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

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

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

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

The Group has no floating rate borrowings as at December 31, 2018.

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 derivative and 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:

	2018		2017	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$218**	**P11,442**	US$174	P8,699
Trade and other receivables	**39**	**2,063**	46	2,279
Noncurrent receivables	**-**	**9**	-	8
	257	**13,514**	220	10,986
Liabilities				
Notes payable	**3**	**142**	3	148
Trade payables and other current liabilities	**68**	**3,598**	62	3,063
	71	**3,740**	65	3,211
Net Foreign Currency-denominated Monetary Assets	**US$186**	**P9,774**	US$155	P7,775

The Group reported net foreign exchange gains (losses) amounting to (P81), P62 and P40 in 2018, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippines Peso
December 31, 2018	**52.58**
December 31, 2017	49.93
December 31, 2016	49.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

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

	2018			
	P1 Decrease in the US Dollar Exchange Rate		**P1 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	**(P25)**	**(P210)**	**P25**	**210**
Trade and other receivables	**(5)**	**(38)**	**5**	**38**
	(30)	**(248)**	**30**	**248**
Notes payable	**-**	**3**	**-**	**(3)**
Trade payables and other current liabilities	**16**	**64**	**(16)**	**(64)**
	16	**67**	**(16)**	**(67)**
	(P14)	**(P181)**	**P14**	**P181**

	2017			
	P1 Decrease in the US Dollar Exchange Rate		P1 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	(P3)	(P173)	P3	P173
Trade and other receivables	(2)	(45)	2	45
	(5)	(218)	5	218
Notes payable	-	3	-	(3)
Trade payables and other current liabilities	12	57	(12)	(57)
	12	60	(12)	(60)
	P7	(P158)	(P7)	P158

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

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

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group 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.

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P39,425**	**P39,425**	**P39,425**	**P -**	**P -**	**P -**
Trade and other receivables - net	**19,554**	**19,554**	**19,554**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**76**	**76**	**76**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Investments" account)	**59**	**59**	**-**	**-**	**-**	**59**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**526**	**526**	**-**	**162**	**273**	**91**
Financial Liabilities						
Notes payable	**21,979**	**22,072**	**22,072**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding derivative liabilities)	**43,275**	**43,275**	**43,275**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**95**	**95**	**95**	**-**	**-**	**-**
Long-term debt (including current maturities)	**35,708**	**40,110**	**14,535**	**1,601**	**21,398**	**2,576**

December 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P35,540	P35,540	P35,540	P -	P -	P -
Trade and other receivables - net	18,237	18,237	18,237	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	61	61	61	-	-	-
AFS Financial assets (included under "Investments" account)	53	53	-	-	-	53
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	574	574	-	121	186	267
Financial Liabilities						
Notes payable	13,939	13,970	13,970	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	33,491	33,491	33,491	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account)	118	118	118	-	-	-
Long-term debt (including current maturities)	34,779	41,186	2,304	14,335	21,818	2,729
Other noncurrent liabilities (excluding retirement and other non-financial liabilities)	30	30	-	30	-	-

Credit Risk

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

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

Trade and Other Receivables

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

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

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

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

The credit quality of financial assets is being managed by the Group using internal credit ratings. Credit quality of the financial assets were determined as follows:

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets, collectively amounting to P39,306 and P35,464 as of December 31, 2018 and 2017, respectively.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and noncurrent receivables and deposits, collectively amounting to P20,080 and P18,811, as of December 31, 2018 and 2017, respectively.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	**2018**	2017
Cash and cash equivalents (excluding cash on hand)	*8*	**P39,230**	P35,403
Trade and other receivables - net	*9*	**19,554**	18,237
Derivative assets	*12*	**76**	61
Financial assets at FVOCI	*13*	**59**	-
Noncurrent receivables and deposits - net	*17*	**526**	574
		P59,445	P54,275

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost				
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P39,230**	**P -**	**P -**	**P -**	**P39,230**
Trade and other receivables - net	**19,554**	-	-	-	**19,554**
Derivative assets	-	-	-	**76**	**76**
Noncurrent receivables and deposits - net	-	**526**	-	-	**526**
Total	**P58,784**	**P526**	**P -**	**P76**	**P59,386**

The aging of receivables is as follows:

2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P12,045**	**P1,021**	**P289**	**P13,355**
Past due:				
1-30 days	**3,321**	**160**	**76**	**3,557**
31-60 days	**480**	**143**	**85**	**708**
61-90 days	**247**	**53**	**41**	**341**
Over 90 days	**1,440**	**601**	**796**	**2,837**
	P17,533	**P1,978**	**P1,287**	**P20,798**

2017	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P11,520	P567	P250	P12,337
Past due:				
1-30 days	2,745	148	66	2,959
31-60 days	509	109	42	660
61-90 days	252	38	16	306
Over 90 days	1,884	706	937	3,527
	P16,910	P1,568	P1,311	P19,789

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.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

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

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

Financial and Other Risks Relating to Livestock

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

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

authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

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

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

Other Market Price Risk
The Group's market price risk arises from its investments carried at fair value (financial assets FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The Group is not subject to externally-imposed capital requirements.

34. 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, 2018 and 2017:

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P39,425**	**P39,425**	P35,540	P35,540
Trade and other receivables - net	**19,554**	**19,554**	18,237	18,237
Derivative assets (included under "Prepaid expenses and other current assets" account)	**76**	**76**	61	61
Financial assets at FVOCI (included under "Investments" account)	**59**	**59**	-	-
AFS Financial assets (included under "Investments" accounts)	-	-	53	53
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**526**	**526**	574	574
Financial Liabilities				
Notes payable	**21,979**	**21,979**	13,939	13,939
Trade payables and other current liabilities (excluding derivative liabilities)	**43,275**	**43,275**	33,491	33,491
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**95**	**95**	118	118
Long-term debt (including current maturities	**35,708**	**35,201**	34,779	36,395
Other noncurrent liabilities (excluding retirement and other non-financial liabilities)	-	-	30	30

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

Cash and Cash Equivalents, Trade and Other Receivables, and Noncurrent Receivables and Deposits. The carrying amounts of cash and cash equivalents, and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, the fair value approximates the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. AFS 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.

Long-term Debt. The fair value of interest-bearing fixed rate loans is based on the discounted value expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of

December 31, 2018 and 2017, discount rates used ranges from 5.79% to 7.04% and from 2.45% to 5.14%, respectively.

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.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$57 and nil as of December 31, 2018 and 2017, respectively. The net positive fair value of the currency forwards amounted to P0.19 million as of December 31, 2018.

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

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As of December 31, 2018 and 2017, the total outstanding notional amount of such embedded currency forwards amounted to US$115 and US$100, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to (P20) and P57 as of December 31, 2018 and 2017, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to (P136), P8 and (P271) in 2018, 2017 and 2016, respectively (Note 27).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2018	2017
Balance at beginning of year	**(P57)**	(P234)
Net change in fair value of non-accounting hedges	**(136)**	8
	(193)	(226)
Less fair value of settled instruments	**173**	(169)
Balance at end of year	**(P366)**	(P57)

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:

2018	**Level 1**	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P -**	**P76**	**P76**
Financial assets at FVOCI	**58**	**1**	**59**
Financial Liabilities			
Derivative liabilities	**-**	**95**	**95**

2017	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P61	P61
AFS Financial assets	50	3	53
Financial Liabilities			
Derivative liabilities	-	118	118

The Group has no financial instruments valued based on Level 3 as at December 31, 2018 and 2017. In 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

35. Employee Stock Purchase Plan

SMFB and SMB

SMC offers shares of stocks to employees of SMC and certain subsidiaries (including SMFB, SMB and certain subsidiaries of SMFB and SMB) under the ESPP. Under the ESPP, all permanent Philippine-based employees who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

There were no shares offered under the ESPP in 2018, 2017 and 2016.

There were no expenses for share-based payments that were paid and charged by SMC to the Group in 2018, 2017 and 2016.

GSMI

Under the ESPP, 3,000,000 shares (inclusive of stock dividends declared) of GSMI's unissued shares have been reserved for the employees of GSMI. All permanent Philippine-based employees of GSMI, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions. The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to GSMI until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

There was no subscriptions receivable as of December 31, 2018 and 2017.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock.

There were no shares offered under the ESPP in 2018, 2017 and 2016. The shares covered by the ESPP are no longer available for subscription as the offering period provided under the said plan expired on January 21, 2013.

36. Registration with the Board of Investments (BOI) and the Authority of Freeport Area of Bataan (AFAB)

Certain expansion projects of SMFB's consolidated subsidiaries are registered with the BOI, as pioneer and non-pioneer status, or with AFAB. As registered enterprises, these SMFB's subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives.

SMFI

SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of the Omnibus Investments Code of 1987 (Executive Order No. 226), the projects are entitled, among others, to the following incentives:

a. *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to income tax holiday (ITH) for a period of six years, extendable under certain conditions to eight years.

   SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

b. *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

c. *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

d. *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

e. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

f. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

Because of the significant changes and developments in the capacity requirements of both plants, as well as the change of project site for the proposed Pagbilao, Quezon plant, the original project proposals are no longer feasible, thus the need to revise the business plans. On September 19, 2018, SMFI submitted to the BOI request for the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082 and voluntarily surrendered the above BOI Certificates of Registration.

On October 10, 2018, the BOI approved the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082.

On February 15, 2019, SMFI submitted its new applications for registration of the Davao and Quezon Poultry Projects reflecting the revised project proposals. The applications are currently subject to the evaluation and approval of the BOI.

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 valid for the year 2017. On March 6, 2018, the AFAB issued its Certificate of Registration No. 2018-096 for Bataan Feedmill Project, valid for the year 2018.

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in Executive Order No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

SMMI

SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in Executive Order No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On November 9, 2017, the BOI approved the change in the start date of the ITH entitlement of the flour mill expansion project to December 2018 or actual start of commercial operations, whichever is earlier.

PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in Executive Order No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

37. Other Matters

(a) *Toll Agreements*

The significant subsidiaries of SMFB have entered 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 amounted to P9,043, P7,970 and P7,525, respectively, in 2018, 2017 and 2016.

(b) *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.

- SEC Case

  On September 10, 2018, SMFB, SMC and GSMI received from the SEC Special Hearing Panel, a Summons and Amended Petition in a case filed by Josefina Multi-Ventures Corporation against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from an increase in SMFB's capital stock, and (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

  SMFB, SMC and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

  Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition to the Urgent Motion while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner.

  On February 19, 2019, the Special Hearing Panel of the SEC rendered a Decision dismissing the Petition for lack of merit.

  On March 6, 2019, Petitioner filed a Motion for Reconsideration of the Decision. SMFB will file an Opposition to the said Motion on or before March 29, 2019.

- Claims for Tax Refund

  i. Filed by SMC

     On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on

"San Mig Light," one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) First Division under two cases, CTA Case Nos. 7052 and 7053. To these cases was consolidated SMC's claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it for its "San Mig Light" product for the period of February 2, 2004 to November 30, 2005 (docketed as CTA Case No. 7405). The CTA, through its First Division, and the CTA En Banc (on appeal), both ruled in favor of SMC. On April 1, 2013, the BIR elevated the consolidated cases to the Supreme Court (docketed as G.R. No. 205723).

SMC filed with the CTA by way of petition for review (Third Division and docketed as CTA Case No. 7708), a second claim for refund for overpayment of excise taxes for the period of December 1, 2005 to July 31, 2007 on November 27, 2007, as SMC was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. The CTA Third Division granted SMC's petition for review and ordered the BIR to refund or issue a tax credit certificate in favor of SMC. The BIR elevated the decision of the Third Division to the CTA En Banc but its appeal was denied. Subsequently, the BIR filed a petition for review with the Supreme Court (docketed as G.R. No. 205045).

On January 25, 2017, the Supreme Court decided in the consolidated cases of GR Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period December 1, 2005 to July 31, 2007, and P782 for the period February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the CTA, SMC filed a motion for execution in CTA Cases Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 representing refund of excess taxes erroneously collected by the BIR for the period of February 2, 2004 to November 30, 2005; and another separate motion for execution in CTA Case No. 7708 on the final judgment of P926 for the period of December 1, 2005 to July 31, 2007. These motions for execution, to which the Commissioner of Internal Revenue offered no opposition, are pending resolution in the First and Second Divisions of the CTA.

SMC filed its third claim for refund with the CTA (Third Division docketed as CTA Case No. 7953) on July 24, 2009 for overpayment of excise taxes for the period of August 1, 2007 to September 30, 2007. This case was consolidated with CTA Case No. 7973 below.

ii. Filed by SMB

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

SMB filed ten claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 2016);

(i) ninth claim for refund of overpayments for the period of January 1, 2016 to December 31, 2016 - First Division docketed as CTA Case No. 9743; and

(j) tenth claim for refund of overpayments for the period of January 1, 2017 to December 31, 2017 - Third Division docketed as CTA Case No. 10000.

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P828 and the amount of P106 to SMC. The BIR appealed to the CTA En Banc which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. SMB's motion for execution is pending with the CTA Second Division.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division, ordering the BIR to refund the amount of P730. The case was not elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of P730, while the BIR filed a Petition for Certiorari before the Supreme Court (docketed as GR No. 221790). The Petition for Certiorari was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB received a clarificatory Resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's Petition for Certiorari and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB, through counsel, shall proceed with the enforcement of the writ of execution by filing with the BIR an application for the issuance of a Tax Credit Certificate in favor of SMB.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA En Banc. The BIR was ordered to refund to SMB the amount of P699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the Supreme Court through its July 24, 2017 Resolution. With the decision in favor of SMB, SMB, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were already returned to the CTA. SMB's motion for execution is pending with the CTA Third Division.

CTA Case No. 8591 was decided in favor of SMB by the CTA's Second Division and CTA En Banc. The BIR was ordered to refund to SMB the amount of P740. The BIR elevated the case to the Supreme Court by way of petition for review (docketed as GR No. 232776), where it was denied on February 21, 2018. The BIR filed a Motion for Reconsideration, which was denied with finality on July 23, 2018. As soon as the case is remanded by the Supreme Court to the CTA, SMB will file a motion for the execution of the decision with the CTA Second Division.

CTA Case No. 8748 was decided in favor of SMB by the CTA's Second Division, ordering the BIR to refund to SMB the amount of P761. The BIR appealed the decision to the CTA En Banc by way of a Petition for Review, which was denied on October 11, 2018. A Motion for Reconsideration was filed by the BIR on November 5, 2018 (docketed as CTA EB Case No. 1730) to which SMB filed an opposition. The Motion for Reconsideration is pending with the CTA En Banc.

CTA Case No. 8955, SMB's claim for refund for P83, was decided against SMB by the CTA Third Division for having purportedly availed of the wrong mode of appeal as SMB should have filed the petition with the Regional Trial Court rather than through a collateral attack on issuances of the BIR via a judicial claim for refund. SMB through counsel, filed a Motion for Reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. With the denial of SMB's Motion for Reconsideration on January 5, 2018, SMB elevated the case to the CTA En Banc by way of a Petition for Review. On September 19, 2018, the CTA En Banc reversed and set aside the decision of the CTA Third Division and remanded the case to the Third Division for the resolution of the same on the merits (docketed as CTA EB Case No. 1772). A Motion for Reconsideration was filed by the BIR which was subsequently denied by the CTA En Banc in a resolution dated January 24, 2019. The CTA Division will proceed to decide the case on the merits.

CTA Case Nos. 9223, SMB's claim for refund for P60, is deemed submitted for resolution by the CTA's Third Division. CTA Case No. 9513, SMB's claim for refund for P48 deemed submitted for resolution by the CTA's Second Division. CTA Case No. 9743, SMB's claim for refund for P30, was transferred from the CTA's Second Division to First Division and is now deemed submitted for resolution. CTA Case No. 10000, SMB's claim for refund for P122, was filed on December 27, 2018 and is pending with the CTA's Third Division.

iii. Filed by GSMI

(a) GSMI vs. Commissioner of Internal Revenue
CTA Case Nos. 8953 and 8954 (Consolidated)
Third Division

These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 in Case No. 8953, and P133 in Case No. 8954, or in the total amount of P715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

These cases are still pending with the CTA.

(b) GSMI vs. Commissioner of Internal Revenue
CTA Case No. 9059
Second Division

This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from 1 June 2013 up to 31 July 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

This case is still pending with the CTA.

- Pending Tax Cases

  i. IBI

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA En Banc and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA En Banc. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA En Banc rendered a decision affirming the decision of the CTA First Division. IBI filed a motion for Partial Reconsideration and the BIR filed its Motion for Reconsideration, which were denied by CTA En Banc in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Certiorari on September 7, 2018. The petitions of IBI and the BIR are pending in the Supreme Court.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA En Banc (docketed as CTA Case EB No. 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of P110, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA En Banc did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus, IBI was ordered to pay a modified amount of P501 in light of the TRAIN Law amendments on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA En Banc has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR. As of December 31, 2018, the Group recognized a provision amounted to P52 million.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. In the meantime, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending at the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three (3) Divisions of the Court. On December 18, 2018, the CTA First Division issued a Resolution admitting IBI's Formal Offer of Evidence and resetting the presentation of evidence by the BIR on March 5, 2019.

ii. SMFI

(a) SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division.

In connection with the tax investigation of Monterey Foods Corporation (MFC) for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand (FLD)/Final Assessment Notice (FAN) issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of a valid Letter of Authority (LoA). Accordingly, the FLD/FAN issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018 SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

(b) SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credits from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

The case is now submitted for decision of the CTA First Division.

(c) SMFI vs. Office of the City Treasurer, City of Davao

On August 23, 2018 and November 12, 2018, SMFI filed Petition for Review with the CTA docketed as CTA Case AC No. 209 and 210, respectively to appeal the joint decision of the Regional Trial Court of Davao City dismissing SMFI's appeal from the denial and inaction of the Office of the City Treasurer of Davao City on the protest against the assessment of permit fee to slaughter.

SMFI protested the assessment of the City Treasurer of Davao City imposing permit fee to slaughter against its dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District both located in Davao City.

It is SMFI's position that Section 367 (a) of the 2005 Revenue Code of the City of Davao (Revenue Code of Davao City) on the imposition of permit fee to slaughter is applicable only to slaughterhouses operated by the City Government of Davao City. SMFI's dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District, being privately owned and operated slaughterhouses is beyond the coverage of Section 357 (a) of the Revenue Code of Davao City. In addition, given that SMFI is already paying ante and post mortem fees for the slaughter of poultry products pursuant to Section 367 (d) of the same Revenue Code, the assessment of permit fee to slaughter would constitute double taxation.

- Intellectual Property Cases Pending with the Supreme Court (SC)

i. Ginebra San Miguel Inc. vs. Director General of the Intellectual Property Office
G.R. No. 196372
Third Division

This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals (CA) affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the SC. The SC denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the SC *En Banc*. Unfortunately, the SC denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of *"League of Cities vs. Commission of Elections"* (G.R. Nos. 176951, 177499 and 178056) to invite the SC *En Banc* to re-examine the case. This case is still pending with the SC.

ii. Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.
G.R. Nos. 210224 and 219632
Third Division

These cases pertain to GSMI's complaint for trademark infringement and unfair competition against Tanduay Distillers, Inc. (TDI) filed with the Regional Trial Court (RTC), arising from TDI's distribution and sale of "Ginebra Kapitan" and use of a bottle design similar to that used by GSMI. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the CA, due to technicalities, two (2) cases were lodged in the CA: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the CA reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the CA ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The CA likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the CA also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the CA, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The CA added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review with the SC, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the SC.

These cases are still pending with the SC.

iii. Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.
G.R. No. 216104
Third Division

This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The CA reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The CA ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the SC, which was subsequently consolidated with the case of *"Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc."*, docketed as G.R. No. 210224. This case is still pending with the SC.

(c) Commitments

The outstanding purchase commitments of the Group as at December 31, 2018 and 2017 amounted to P40,355 and P32,430, respectively.

Amount authorized but not yet disbursed for capital projects is approximately P16,179 and P13,860 as at December 31, 2018 and 2017, respectively.

(d) Foreign Exchange Rates

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso were closing rates of P52.58 and P49.93 in 2018 and 2017, respectively, for consolidated statements of financial position accounts; and average rates of P52.69, P50.40 and P47.48 in 2018, 2017 and 2016, respectively, for income and expense accounts.

38. Events After the Reporting Date

(a) On February 6, 2019, the BOD of the Parent Company declared cash dividends to all preferred and common shareholders of record as at February 20, 2019 amounting to P14.14225 per preferred share and P0.40 per common share. Cash dividends for common shares was paid on March 6, 2019 while cash dividend for preferred shares was paid on March 12, 2019.

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