SAN MIGUEL
FOOD AND BEVERAGE, INC.

San Miguel Food and Beverage, Inc.

Offer of ₱15,000,000,000.00 Fixed Rate Bonds

Consisting of:

Series A Bonds: 5.05% p.a. due 2025

Series B Bonds: 5.25% p.a. due 2027

Offer Price: 100% of Face Value

To be listed and traded through the Philippine Dealing & Exchange Corp.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation

BPI Capital Corporation

China Bank Capital Corporation

Philippine Commercial Capital, Inc.

PNB Capital and Investment Corporation

RCBC Capital Corporation

SB Capital Investment Corporation

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

The date of this Prospectus is February 20, 2020

San Miguel Food and Beverage, Inc.
100 E. Rodriguez Jr. Avenue (C-5 Road),
Barangay Ugong, Pasig City 1604
Metro Manila, Philippines
Telephone Number: +63 2 5317 5000
Corporate Website: https://www.smfb.com.ph

This prospectus (the "**Prospectus**") relates to the registration and the public offer for sale, distribution, and issuance by San Miguel Food and Beverage, Inc. ("**SMFB**", the "**Company**", or the "**Issuer**") in the Philippines of Peso-denominated fixed rate bonds (the "**Bonds**"), with an aggregate principal amount of Fifteen Billion Pesos (₱15,000,000,000.00). The Bonds will be issued at face value and listed and traded through the Philippine Dealing & Exchange Corp. ("**PDEx**").

The Bonds will be issued on March 10, 2020 (the "**Issue Date**") and will be comprised of 5-year Series A Bonds due 2025 (the "**Series A Bonds**") and 7-year Series B Bonds due 2027 (the "**Series B Bonds**"). The Issuer reserves the right to allocate the Bonds between the Series A Bonds and the Series B Bonds based on the bookbuilding process and may opt to allocate the entire amount to just one series.

The Series A Bonds shall have a term of five (5) years from Issue Date with a fixed interest rate equivalent to 5.05% per annum. The Series B Bonds shall have a term of seven (7) years from Issue Date with a fixed interest rate equivalent to 5.25% per annum. For a detailed discussion on the Interest Payment Dates, please refer to the discussion under the section "*Description of the Bonds – Interest*" starting on page 33 of this Prospectus.

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the relevant Maturity Date, the Bonds will be redeemed at par or 100% of the face value thereof on the relevant Maturity Date. For a more detailed discussion on the redemption of the Bonds, please refer to the discussion under the section "*Description of the Bonds – Redemption and Purchase*" starting on page 34 of this Prospectus.

The Bonds will be offered to the public solely in the Philippines through BDO Capital & Investment Corporation ("**BDO Capital**"), BPI Capital Corporation ("**BPI Capital**"), China Bank Capital Corporation ("**China Bank Capital**"), Philippine Commercial Capital, Inc. ("**PCCI**"), PNB Capital and Investment Corporation ("**PNB Capital**"), RCBC Capital Corporation ("**RCBC Capital**"), and SB Capital Investment Corporation ("**SB Capital**") (collectively, the "**Joint Lead Underwriters and Bookrunners**"), and participating underwriters, co-lead underwriters, and selling agents named herein.

The Company reserves the right to withdraw any offer and sale of the Bonds at any time, and the Joint Lead Underwriters and Bookrunners reserve the right to reject any application to purchase the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. If an offer of the Bonds is withdrawn or discontinued, the Company shall subsequently notify the Securities and Exchange Commission ("**SEC**") and, as applicable, the PDEx. The Joint Lead Underwriters and Bookrunners, participating underwriters, co-lead underwriters, and selling agent for the Bonds may acquire for their own account a portion of the Bonds.

The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Joint Lead Underwriters and Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

It is expected that the Bonds will be delivered in book-entry form against payment thereof to the Philippine Depository & Trust Corp. ("**PDTC**").

This Prospectus contains the final terms of the Bonds. Information on the Issuer and this Offer is only available on the Prospectus, and the Bond Agreements.

The gross proceeds of the Offer shall be ₱15,000,000,000.00. The net proceeds from the Offer, after deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and out-of-pocket expenses, is estimated to be ₱14,801,459,375.00 and will be used by the Company primarily for the redemption of the outstanding Series 2 Perpetual Preferred Shares of the Company.

On November 6, 2019, the Board of Directors authorized the sale and offer of the Bonds under such terms and conditions as the management of SMFB may deem advantageous to it (the "**Enabling Resolutions**").

On November 14, 2019, the Company filed an application with the SEC to register the Bonds under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) ("**SRC**"). The SEC issued an order rendering the Registration Statement filed by the Company effective and a corresponding permit to offer securities for sale covering the Bonds. As a listed company, SMFB regularly disseminates such updates and information in its disclosures to the SEC and the Philippine Stock Exchange, Inc. ("**PSE**").

On December 6, 2019, the Company filed an application for the listing of the Bonds in the PDEx to register the Bonds. However, there is no assurance that such a listing will be achieved either before or after the relevant issue date of the Bonds being offered at a particular time or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing will be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

The Bonds have been rated PRS Aaa by the Philippine Rating Services Corporation ("**PhilRatings**") on December 4, 2019. PRS Aaa is the highest rating assigned by PhilRatings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned.

The Joint Lead Underwriters and Bookrunners have exercised reasonable due diligence required by regulations in ascertaining that all material representations contained in the Prospectus are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents are not misleading.

No person or group of persons has been authorized by SMFB and the Joint Lead Underwriters and Bookrunners to give any information or to make any representation concerning the Bonds other than as contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Lead Underwriters and Bookrunners.

The price of securities, such as the Bonds, can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors relating to the Company's business and operations, risks relating to the Philippines and risks relating to the Bonds, as set out in "*Risk Factors*" found on page 49 of this Prospectus, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds. The risk disclosure discussion does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities.

Unless otherwise stated, the information contained in this Prospectus has been supplied by SMFB. The Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect.

All information in the Prospectus is as of the date hereof, unless otherwise indicated. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures show, in the same item of any information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company nor any of the Joint Lead Underwriters and Bookrunners makes any representation, undertaking or other assurance as to the accuracy or completeness of such information or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to each Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer or the Joint Underwriters and Bookrunners, or their respective affiliates or legal advisers, that any recipient of this Prospectus should purchase the Bonds. Each person contemplating an investment in the Bonds should make his own investigation and analysis of the creditworthiness of SMFB and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section on "*Risk Factors*" starting on page 49.

The Company owns land as identified in the section on "*Description of Property*" on page 130. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens. For as long as the percentage of Filipino ownership of the capital stock of the Company is at least 60.0% of the total shares outstanding and voting, the corporation shall be considered as a 100.0% Filipino-owned corporation.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SAN MIGUEL FOOD AND BEVERAGE, INC.

By:

RAMON S. ANG
President and Chief Executive Officer

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this FEB 20 2020 in MAKATI CITY, affiant exhibiting to me his Passport No. P2247867B expiring on May 21, 2029 as competent evidence of identity.

Doc No. 95;
Page No. 20;
Book No. II;
Series of 2020.

CHRISTINE JOY F. ANGAT
Appointment No. M-523
Notary Public for Makati City
Until December 31, 2020
Liberty Center- Picazo Law
104 H.V. Dela Costa Street, Makati City
Roll of Attorney's No. 73262
PTR No. 8148378/Makati City/01-20-2020
IBP No. 101857/Cavite/01-07-2020
MCLE Exempted-Admitted to the bar in 2019

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMFB to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which SMFB will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMFB to successfully implement its strategies;
- the ability of SMFB to anticipate and respond to consumer trends;
- changes in availability of raw materials used in the production processes of SMFB;
- the ability of SMFB to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the beer, liquor and food industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMFB to differ materially include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus.

These forward-looking statements speak only as of the date of this Prospectus. SMFB and the Joint Lead Underwriters and Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMFB with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "may", "plan", "intend", "will", "shall", "should", "would" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs and intentions of the management of SMFB as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

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GLOSSARY

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

Affiliate……………………………..	With respect to any Person, means any other Person (i) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, such Person, or who is a director or officer of such Person or (ii) any subsidiary of such Person or of any Person referred to in clause (i) of this definition.
Animal Nutrition and Health………..	Segment of the Food Division that produces integrated feeds
Applicable Law……………………..	Any statute, law, regulation, ordinance, rule, judgment, order, decree, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority
Applicant…………………………….	A Person who submits a duly accomplished Application to Purchase, together with all the requirements set forth therein
Application to Purchase……………..	The application form accomplished and submitted by an Applicant for the purchase of a specified amount of the relevant series of the Bonds, together with all the other requirements set forth in such application form
ASEAN…….……..……..………….	Association of Southeast Asian Nations
BDO Capital……..……..……..……..	BDO Capital & Investment Corporation
Beer and NAB Division……..………	SMFB's beer and non-alcoholic beverage business operating through SMB and its subsidiaries
BIR……..……..……..……..……..…	Bureau of Internal Revenue
Board of Directors or Board……..….	SMFB's board of directors
BOC……..……..……..……..……….	Bank of Commerce
BOI……..……..……..……..………..	Board of Investments
Bond Agreements……..……..………	Collectively, the Underwriting Agreement, the Trust Agreement and the Registry and Paying Agency Agreement, and any amendments thereto.
Bondholder……..……..……..………	A Person whose name appears, at any relevant time, as the registered owner of the Bonds in the Registry of Bondholders.
Bonds……..……..……..……..……..	Collectively, the Philippine Peso-denominated fixed rate retail bonds of ₱15,000,000,000.00
BPI Capital……..……..……..………	BPI Capital Corporation
BSP……..……..……..……..……….	*Bangko Sentral ng Pilipinas,* the central bank of the Philippines
Business Day……..……..……..…….	A day other than a public non-working holiday, Saturday or Sunday on which the facilities of the Philippine banking system are open and available for clearing, and banks are open for business in Metro Manila, Philippines

CAGR……..……..……..……..…….	Compound Annual Growth Rate
Capital Stock……..……..……..…….	With respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the date of this Agreement or issued hereafter, including, without limitation, all common stock and preferred stock of such Person.
Change in Law or Circumstance…….	Each of the events described as such under "*Description of the Bonds – Redemption by Reason of Change in Law or Circumstance*"
Change of Control……..……..……...	The occurrence of any of the following: (i) the Controlling Stockholders collectively cease to be the beneficial owners of at least 35% of the total voting power of the Voting Stock of the Issuer; or (ii) the Controlling Stockholders collectively cease to be the largest beneficial owners of the total voting power of the Voting Stock of the Issuer; or (iii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person or Persons (other than any of the Controlling Stockholders where such Controlling Stockholder assumes all of the obligations of the Issuer under the Trust Agreement and the Bonds) unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity.
China……..……..……..……..……..	The People's Republic of China (excluding Hong Kong)
China Bank Capital ……..……..……	China Bank Capital Corporation
Consolidated Debt ………………….	At any date, the aggregate amount (without duplication) of all Debt of the Group excluding Ring-Fenced Debt as at such date.
Consolidated Equity…………………	The consolidated assets minus consolidated liabilities plus deposit for future subscription as reported in the consolidated financial statements of the Company and excluding all amounts attributable to or generated by the Ring-Fenced Subsidiaries.
Consolidated Interest Expense………	The total Interest Expense per consolidated financial statements of the Company less interest on leases which are capitalized in accordance with PFRS.
Consolidated Net Worth ……..……..	At any date, the consolidated equity (including minority interests) which would appear on a consolidated balance sheet of the Group prepared as of such date in accordance with PFRS
Consolidated Subsidiary ……………	A Subsidiary of any Person which for financial reporting purposes, in accordance with PFRS, is accounted for by such Person as a consolidated Subsidiary
Consolidated Total EBITDA………..	In respect of any Relevant Period, the net income of the Group (excluding items between any or all of the Issuer and its Consolidated Subsidiaries): (i) before any provision on account of taxation;

(ii) before any interest, commission, discounts or other fees incurred or payable, received or receivable by the Issuer or any of its Consolidated Subsidiaries in respect of Debt;

(iii) before any items treated as exceptional or extraordinary items;

(iv) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets excluding amortization and depreciation in respect of any lease or hire purchase contract which would, in accordance with PFRS, be treated as a finance or capital lease; and

(v) if in respect of a calculation of a financial covenant under the section entitled "*Description of the Bonds – Financial Ratio,*" EBITDA attributable to or generated by the Ring-Fenced Subsidiaries is excluded

Controlling Stockholders ………….. (i) San Miguel Corporation and (ii) any Affiliate of, or any Person who is a Related Person with respect to, those mentioned in (i).

Corporation Code……..……..……… Republic Act No. 11232, otherwise known as the Revised Corporation Code

DA……..……..……..……..……….. Department of Agriculture

Debt……..……..……..……..……… Any indebtedness of a Person for or in respect of:

(i) all obligations of such Person for borrowed money;

(ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) all Debt (of any Person) secured by a Lien on any asset of such first-mentioned Person, whether or not such Debt is otherwise an obligation of such first-mentioned Person;

(iv) all obligations of such Person in respect of any redeemable stock of such Person, provided that, such redeemable stock (i) is required to be redeemed prior to March 10, 2027; or (ii) redeemable at the option of the holder thereof or any other Person at any time prior to March 10, 2027 provided such right has been exercised or notice of such exercise has been made; and

(v) all Debt of others Guaranteed by such Person,

and so that where the amount of Debt falls to be calculated, no amount shall be taken into account more than once in the same calculation and, where the amount is to be calculated on a consolidated basis in respect of a corporate group, monies borrowed or raised, or other indebtedness, as between members of such group shall be excluded.

DENR……..……..……..…………… Department of Environment and Natural Resources

Disruption Event……………………. Either or both of: (i) a material disruption to those payment communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the transactions contemplated by the Trust Agreement to be carried out which disruption is not caused by, and is beyond the control of, any of the parties; or (ii) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or

	payment operations of a party preventing that party from: (a) performing its payment obligations under the Trust Agreement and the Registry and Paying Agency Agreement; or (b) communicating with other relevant parties (including, but not limited to, the Trustee and Registrar and Paying Agent) in accordance with the terms of the Trust Agreement and the Registry and Paying Agency Agreement
DOH……..……….……..……..…….	Department of Health
DOLE……..……..……..……………	Department of Labor and Employment
DTI……..……..……..……..………..	Department of Trade and Industry
ECC……..……..……..……..……….	Environmental Compliance Certificate
EIS……..……..……..……..……….	Environmental Impact Statement
EMB……..……..………..…………..	Environmental Management Bureau
F&B……..……..……..……..……….	Food and Beverage
FBO……..……..……..……..……….	Food Business Operator
FDA……..……..……..……..……….	Food and Drug Administration
FIA……..……..……..……..………..	Republic Act No. 7042, otherwise known as the Foreign Investments Act of 1991, as amended
Food Division……..……..……..……	SMFB's food business, key subsidiaries of which include SMFI, Magnolia Inc, Purefoods-Hormel
Food Safety Act……..……..………..	Republic Act No. 10611, otherwise known as the Food Safety Act of 2013
GlobalData……..……..……..………	GlobalData UK Ltd.
Government……..……..……..……..	Government of the Republic of the Philippines and all its instrumentalities
Governmental Authority……..……..	Any government agency, authority, bureau, department, court, tribunal, legislative body, statutory or legal entity (whether autonomous or not), commission, corporation, or instrumentality, whether national or local, of the Philippines
Greater Manila……..……..……..….	Metro Manila and the surrounding peripheral provinces
Group……..……..……..……..……..	At any time, the Company and its Subsidiaries at such time
Guarantee……..……..……..……….	Any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such first-mentioned Person entered into for the purpose of assuring in any manner the obligee of such Debt or other obligation or to protect such obligee against loss (in whole or in part), provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.

GSMI……..……..……..…………….	Ginebra San Miguel Inc.
HL……..……..……..……..…….…...	Hectoliter, a metric unit of capacity equal to one hundred liters
IBI……..……..……..……..………...	Iconic Beverage, Inc.
Interest Expense……..……..……….	For any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments (other than payments of principal) in respect of indebtedness paid or payable by any member of the Group in cash or capitalized in respect of that Relevant Period: (i) including any upfront fees or costs; (ii) including the interest (but not the capital) element of payments in respect of any lease or hire purchase contract which would, in accordance with PFRS, be treated as a finance or capital lease; (iii) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Group under any interest rate hedging arrangement; (iv) excluding any accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments in respect of indebtedness paid or payable by any Ring-Fenced Subsidiaries; and (v) excluding the amount of any cash dividends or distributions paid or made by the Company in respect of that Relevant Period and in each case so that no amount shall be added (or deducted) more than once.
Interest Payment Date……………….	June 10, 2020 and thereafter, each of September 10, December 10, March 10, and June 10 of each year, or the next Business Day if such date falls on a non-Business Day, during which any of the Bonds are outstanding
Issue Date……..……..……..……….	March 10, 2020 or such other date as the Issuer and the Joint Lead Underwriters and Bookrunners may agree in writing; provided, that such date shall be a date which is within the validity of the Permit to Sell
Joint Lead Underwriters and Bookrunners……..……..……………	Collectively, BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, Philippine Commercial Capital, Inc., PNB Capital and Investment Corporation, RCBC Capital Corporation, and SB Capital Investment Corporation
Kirin……..……..……..……..………	Kirin Holdings Company, Limited
Labor Code……..……..……..………	Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines, as amended
LGU……..……..……..……..………	Local Government Unit
Lien……..……..……..……..………	With respect to any property or asset, (i) any mortgage, lien, pledge, charge, security interest, encumbrance or other preferential arrangement of any kind in respect of such property or asset, including, without limitation, any preference or priority under Article 2244(14)(a) of the Civil Code of the Philippines, as the same may be amended from time to time, in each case, to the extent securing payment or performance of a

Debt prior to any general creditor of such Person; and (ii) the right of a vendor, lessor, or similar party under any conditional sales agreement, capital lease or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any property or asset, or the proceeds therefrom, prior to any general creditor of the owner thereof

Livestock and Poultry Feeds Act…… Republic Act No. 1556, otherwise known as the Livestock and Poultry Feeds Act, as amended by Presidential Decree No. 7, otherwise known as the Orderly Marketing of Livestock and Animal Products and New Regulations on Animal Feeds issued in 1972

Magnolia……..……………..………. Magnolia Inc.

Majority Bondholders……..………... (i) With respect to matters relating only to the Series A Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series A Bonds; (ii) with respect to matters relating only to the Series B Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series B Bonds; and (iii) with respect to the matters affecting the Series A Bonds and Series B Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Bonds

Master Certificate of Indebtedness…. For each of the Series A Bonds and Series B Bonds, the bond certificate issued by the Issuer in the name of the Trustee for the benefit of the Bondholders covering the entire principal amount of the relevant series of the Bonds purchased during the Offer Period and to be issued by the Issuer on the Issue Date, which shall be substantially in the form attached as Annex B of the Trust Agreement

Material Adverse Effect……..…… In the reasonable opinion of the Majority Bondholders, acting in good faith and in consultation with the Issuer, a material adverse effect on (i) the ability of the Issuer to observe and comply with the provisions of and perform its financial obligations under the Bonds and the Bond Agreements; or (ii) the validity or enforceability of the Bonds or any of the Bond Agreements; or (iii) the financial condition, business or operations of the Issuer taken as a whole

Material Subsidiary……..……..……. At any time:

(a) A Subsidiary of the Issuer as of such date with respect of which:

(i) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the net income (excluding extraordinary gains and losses) thereof, as shown by the latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries), constitutes at least 5% of the consolidated revenue of the Issuer (excluding extraordinary gains and losses) as shown by the consolidated audited accounts of the Issuer in respect of the same period; or

(ii) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the total assets thereof, as shown by the then latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) constitute at least 10% of the total consolidated assets of the Issuer as shown by the consolidated audited accounts of the Issuer in respect of the same period.

Provided that for the purpose of the above:

(1) in the case of a Subsidiary acquired, or a Person becoming a Subsidiary, after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer, for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the acquisition is made, or as the case may be, in which the person becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) into such accounts (as if such latest consolidated audited accounts of the Issuer are prepared in respect of the same period as such latest audited accounts of such Subsidiary);

(2) if at any time when a determination must be made under this definition with respect to the Issuer or any Subsidiary for which consolidated audited accounts of the Issuer are necessary, no such consolidated audited accounts are prepared and audited, net income (excluding extraordinary gains and losses) and total assets of the Issuer shall be determined on the basis of the pro forma consolidated accounts prepared for this purpose by the auditors at that time of the Issuer (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and

(3) if at any time when a determination must be made under this definition with respect to any Subsidiary for which audited accounts of such Subsidiary are necessary, no such accounts are prepared and audited, its net income (excluding extraordinary gains and losses) and total assets shall be determined on the basis of the pro forma accounts of such Subsidiary (which account should be consolidated if such Subsidiary has any Subsidiaries) prepared for this purpose by the auditors at that time of such Subsidiary (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and

(b) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary.

Maturity Date……..………………… For the Series A Bonds, the fifth (5th) anniversary of the Issue Date or on March 10, 2025, and for the Series B Bonds, the seventh (7th) anniversary of the Issue Date or March 10, 2027, provided, that if the relevant Maturity Date falls on a day that is not a Business Day, then the payment of the principal shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and principal to be paid.

NAB……..……..……..……..………	Non-Alcoholic Beverages
NMIS……..……..……..……..……..	National Meat Inspection Service
NPD……..……..……..……..………	New Product Development
Offer……..……..……..……..………	The public offer for sale, distribution and issuance of the Bonds by the Issuer to eligible investors
Offer Period……..……..……..……...	The period when the Bonds are publicly offered for sale, distribution and issuance by the Issuer to eligible investors, commencing at 9:00 a.m. on February 24, 2020 and end at 5:00 p.m. on March 3, 2020, or such other dates and time as may be mutually agreed between the Issuer and the Joint Lead Underwriters and Bookrunners.
Optional Redemption Date……..……	(a) in respect of the Series A Bonds, (i) the third (3rd) anniversary of the Issue Date or on March 10, 2023, or (ii) on the fourth (4th) anniversary of the Issue Date or on March 10, 2024; and (b) in respect of the Series B Bonds, (i) the fifth (5th) anniversary of the Issue Date or on March 10, 2025, or (ii) the sixth (6th) anniversary of the Issue Date or on March 10, 2026; provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.
Packaging Group……..……..……….	SMYPC, Can Asia, Inc., and San Miguel Yamamura Asia Corporation
Parent Company……..……..……….	SMC
Payment Account……..……..………	The account to be opened and maintained by the Registrar and Paying Agent with such Payment Account Bank designated by the Issuer and solely managed by the Registrar and Paying Agent, in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal payments due on the Outstanding Bonds on a relevant date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders. As used in this definition, the terms "Outstanding Bonds" and "Payment Account Bank" have the respective meanings given to such terms in the Registry and Paying Agency Agreement.
Payment Date……..……..…………..	As the context may require, each Interest Payment Date, the Maturity Date for the relevant series of the Bonds, and/or the relevant Redemption Date.
PCCI……..……..……..……..………	Philippine Commercial Capital, Inc.
PDS……..……..……..……..……….	Philippine Dealing System
PDEx……..……..……..……..……..	Philippine Dealing & Exchange Corp.
PDEx Rules……..……..……..……..	The applicable rules, conventions and guidelines of PDEx

PDS Group – Registered Cash Settlement Banks……..……..………	Banking institutions that provide cash payment services for client investors arising from fixed income securities activities in PDS Group Subsidiaries
PDTC……..……..……..……..……..	Philippine Depository & Trust Corp.
Permit to Sell……..……..……..…….	The Certificate of Permit to Sell or Offer for Sale of Securities issued by the SEC in respect of the Offer
Permitted Liens……..……..……..…	Means:

(i) Any Lien existing as of the date of the Trust Agreement;

(ii) Liens for taxes or assessments or governmental charges or levies not yet delinquent or which are being contested in good faith;

(iii) Liens arising by operation of law (other than any preference or priority under Article 2244(14)(a) of the Civil Code of the Philippines as the same may be amended from time to time) on any property or asset of the Issuer or its Material Subsidiaries, including without limitation, amounts owing to a landlord, carrier, warehouseman, mechanic or materialman;

(iv) Liens over or affecting any asset of any company which becomes a member of the Group after the date of the Trust Agreement, where the Lien is created prior to the date on which that company becomes a member of the Group;

(v) Liens (not otherwise permitted in paragraphs (ii) to (iv) above) securing Debt owed under any government lending program or incurred by the Issuer and/or its Material Subsidiaries, in each case, in the ordinary course of any real property development business and in an aggregate principal amount (such aggregate being the aggregate for the Issuer and the Material Subsidiaries) at any date not to exceed 5% of the Consolidated Net Worth as of such date;

(vi) To the extent notified to the Trustee in writing, any Lien created by a Ring-Fenced Subsidiary without any recourse to the Group;

(vii) To the extent notified to the Trustee in writing, any Lien created over shares in any Ring-Fenced Subsidiary;

(viii) Any Lien upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries to secure:

(1) any Debt which (subject to paragraph (2) of this definition below) is not Public Debt; or

(2) any Public Debt (A) which (i) by its terms does not provide that the Company or any Material Subsidiary is an obligor; (ii) by its terms does not provide that a Guarantee or credit support of any kind is given by the Company or any of the Material Subsidiaries; and (iii) does not have the legal effect of providing recourse against any of the assets of the Company or any of the Material Subsidiaries; and (B) no default with respect to which would permit upon notice, lapse of time or both any holders of any other Debt of the Company or any of the Material Subsidiaries to declare a default on such

other Debt or cause the payment of such other Debt to be accelerated or payable prior to its stated maturity,

which, in either case (either alone or when aggregated with all other present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries upon, or with respect to, which Liens are subsisting), does not exceed 25% of the consolidated Total Assets of the Group taken as a whole;

(ix) Liens created with the prior written consent of the Majority Bondholders; and

(x) any extension, renewal, supplement, or replacement (or successive extensions, renewals, supplements, or replacements) in whole or in part of any Lien referred to in paragraphs (i), (vi), (vii) and (viii), or any Debt secured thereby; provided that such extension, renewal, supplement, or replacement is limited to all or any part of the same property that secured the Lien extended, renewed, supplemented, or replaced (plus any construction, repair, or improvement on such property) and shall secure no larger amount of financial Debt than that existing at the time of such extension, renewal, supplement, or replacement.

Person……..……..……..……..……..	Any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization.
PFRS……..……..……..……...……..	Philippine Financial Reporting Standards which includes statements named PFRS and Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC) or, at any time, generally accepted accounting principles in the Philippines in conformity with international accounting standards in effect at such time.
Philippines……..……..……..……….	The Republic of the Philippines
Philippine Peso, Peso, PHP, ₱, or P…	Philippine Peso, the legal currency of the Philippines
PhilRatings……..……..……..………	Philippine Rating Services Corporation
PNB Capital……..……..……..……..	PNB Capital and Investment Corporation
Prepared and Packaged Food………..	Segment of the Food Division that produces branded value-added refrigerated meats and canned meats, dairy, ice cream, spreads and oils, biscuits and coffee
Price Act……..……..……..……..….	Republic Act No. 7581, otherwise known as the Price Act, as amended
Prospectus……..……..……..……….	The prospectus dated February 20, 2020 and any amendments, supplements and addenda thereto for the offer and sale to the public of the Bonds
Protein……..……..……..……..…….	Segment of the Food Division whose products include poultry and fresh meats

PSE……..……..……..……..………. The Philippine Stock Exchange, Inc.

Public Debt……..……..……..……… Any present or future Debt (whether being principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and any Guarantee or indemnity of any such Debt

Purchase Price……..……..……..…... In respect of each Bond, an amount equal to the face amount of such Bond, which is payable upon submission of the duly executed Application to Purchase.

Purefoods-Hormel……..……..…… The Purefoods-Hormel Company, Inc.

QIB……..……..……..……..……… Qualified Institutional Buyer

RCBC Capital …………………….. RCBC Capital Corporation

Record Date……..……..………….. As used with respect to any Payment Date, (i) 2 Business Days immediately preceding the relevant Payment Date, which shall be the cut-off date in determining the Bondholders entitled to receive interest, principal or any amount due under the Bonds or (ii) such other date as the Issuer may duly notify the PDTC.

Redemption Date……..……………. The date when the Bonds (or any series thereof) are redeemed earlier than the relevant Maturity Date in accordance with the terms and conditions of the Bonds; provided that if the relevant Redemption Date falls on a day that is not a Business Day, then the payment of the principal and accrued interest (if any) shall be made by the Issuer on the next Business Day, without adjustment to the amount of principal and interest to be paid. For the avoidance of doubt, the term "Redemption Date" includes Optional Redemption Date.

Registrar and/or Paying Agent …...... The Philippine Depository & Trust Corp., a corporation with a quasi-banking license duly organized and existing under and by virtue of the laws of the Philippines, whose principal obligation is to handle payments of the principal of, interest on, and all other amounts payable on the Bonds, to the Bondholders, pursuant to the Registry and Paying Agency Agreement. The term includes, wherever the context permits, all other Person or Persons for the time being acting as paying agent or paying agents under the Registry and Paying Agency Agreement.

Registration Statement……..……….. The registration statement filed with the SEC in connection with the offer and sale to the public of the Bonds and rendered effective by the SEC.

Registry of Bondholders……..……... The electronic registry book of the Registrar containing the official information on the Bondholders and the amount of the Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon, to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement.

Registry and Paying Agency Agreement……..……..……..……… The Registry and Paying Agency Agreement dated February 20, 2020, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Registrar and Paying Agent in relation to the Bonds.

Related Person……..……..…………	With respect to any Person means: (i) any Controlling stockholder or a majority (or more) owned Subsidiary of such Person, or, in the case of an individual, any spouse or immediate family member of such Person, any trust created for the benefit of such individual or such individual's estate, executor, administrator, committee or beneficiaries; or (ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Person and/or such other Persons referred to in the immediately preceding paragraph.
Relevant Period……..……..………..	A period of 12 calendar months ending on the last day of any quarter of any of the Issuer's fiscal years
R&D……..……..……..……..………	Research and Development
RGB……..……..……..……..………	Returnable Glass Bottle
Ring-Fenced Subsidiaries……..…….	Any entity that satisfies the following conditions: (i) such entity is a Subsidiary of the Issuer but not a Material Subsidiary; (ii) such entity, to the extent directly owned by the Issuer or a member of the Group (other than another Ring-Fenced Subsidiary), is a limited liability company or corporation organized and existing under the laws of the Philippines; (iii) the Issuer has delivered a written notification to the Trustee designating such entity as a Ring-Fenced Subsidiary; (iv) no member of the Group (other than that Ring-Fenced Subsidiary) shall be contingently liable for any Debt of such entity or its Subsidiaries, except in respect of the granting by a member of the Group of Liens over its shares in such entity or such entity's Subsidiaries; and (v) all transactions conducted between any member of the Group and such entity or its Subsidiaries must be on an arm's length basis and on normal commercial terms, and each Subsidiary of any such entity shall also be a Ring-Fenced Subsidiary.
RTGS……..……..……..……..……..	Real Time Gross Settlement
SB Capital……..……..……..……….	SB Capital Investment Corporation
SCCP……..……..……..……..……..	Securities Clearing Corporation of the Philippines
SEC……..……..……..……..……….	The Securities and Exchange Commission
Series A Bonds…..……..……..……..	The Bonds to be issued by the Issuer, with an aggregate principal amount of Eight Billion Pesos (₱8,000,000,000.00), having a term beginning on the Issue Date and ending on the fifth (5^{th}) anniversary of the Issue Date or on March 10, 2025, with a fixed interest rate equivalent to 5.05% per

	annum
Series B Bonds…..……..……..……..	The Bonds to be issued by the Issuer, with an aggregate principal amount of Seven Billion Pesos (₱7,000,000,000.00), having a term beginning on the Issue Date and ending on the seventh (7th) anniversary of the Issue Date or on March 10, 2027, with a fixed interest rate equivalent to 5.25% per annum
SKU……..……..……..……..……….	Stock Keeping Unit, referring to a distinct product for sale
SMB……..……..……..……..………	San Miguel Brewery Inc.
SMBIL……..……..……..……..……	San Miguel Brewing International Limited
SMC……..……..……..……..………	San Miguel Corporation
SMFB……..……..……..……..……..	San Miguel Food and Beverage, Inc.
SMFI……..……..……..……..……...	San Miguel Foods, Inc.
SMPFC……..……..……..……..……	San Miguel Pure Foods Company Inc., now known as SMFB
SMYPC……..……..……..………….	San Miguel Yamamura Packaging Corporation
SRC……..……..……..……..……….	Republic Act No. 8799, otherwise known as the Philippine Securities Regulation Code, as amended from time to time, and including the rules and regulations issued thereunder
SRP……..……..……..……..………..	Suggested Retail Price
Spirits Division……..……..………...	SMFB's spirits and liquor business operating through GSMI and its subsidiaries.
Subsidiary……..……..……..……….	An entity of which a Person has direct or indirect Control or owns directly or indirectly more than fifty percent (50%) of the voting capital or similar right of ownership
Tax Code……..……..……..………...	The National Internal Revenue Code of the Philippines, as amended
Total Assets……..……..……..……..	With respect to any Person, the total consolidated assets of such Person and its Subsidiaries as determined by reference to the most recently available quarterly or annual consolidated financial statements of such Person and its Subsidiaries prepared in accordance with PFRS
TRAIN……..……..……..……..……	Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion
Transaction Date ……………………	With respect the incurrence of any Debt, the date such Debt is incurred
Trust Agreement……..……..……….	The Trust Agreement dated February 20, 2020 and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Trustee.
Trustee……..……..……..……..…….	Rizal Commercial Banking Corporation – Trust and Investment Group
Underwriting Agreement……..……..	The Underwriting Agreement dated February 20, 2020, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Joint Lead

	Underwriters and Bookrunners in relation to the Bonds.
VAT…….……..……..……..………	Value-added tax
Voting Stock……..……..……..…….	With respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Prospectus, including the consolidated financial statements of SMFB and the notes thereto, included elsewhere in this Prospectus.

Overview

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, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy,* for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds. Bulk of SMFB's revenues are generated from seven categories where the Company holds the No. 1 position for beverages and food. For the year ended 2018, most of our brands held market-leading positions such as our beer brands, which have an aggregate market share of 94.2% according to GlobalData.

We have three primary operating divisions—(i) beer and non-alcoholic beverages ("**NAB**"), (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise our beverage business (the "**Beverage business**"). We operate our Beverage business through San Miguel Brewery Inc. and its subsidiaries ("**SMB**" or the "**Beer and NAB Division**") and Ginebra San Miguel Inc. and its subsidiaries ("**GSMI**" or the "**Spirits Division**"). Our Food business (the "**Food Division**") is managed through a number of other subsidiaries, including San Miguel Foods, Inc. ("**SMFI**"), Magnolia Inc. ("**Magnolia**"), and The Purefoods-Hormel Company, Inc. ("**Purefoods-Hormel**"). We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to almost 60 markets worldwide.

We are a subsidiary of San Miguel Corporation ("**SMC**" and together with its portfolio of companies, the "**San Miguel Group**"), one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of Philippine GDP in 2018. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, car distributorship and banking services. We are a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation.

We are listed on the PSE under stock code "**FB**". On June 29, 2018, SMC approved and implemented the internal restructuring and consolidation of its food and beverage businesses under SMFB (previously known as San Miguel Pure Foods Company Inc., "**SMPFC**") (the "**SMFB Consolidation**"). As part of the SMFB consolidation, SMB and GSMI were consolidated with the Food Division under SMFB, thereby establishing a unique unit within the San Miguel Group focused on the food and beverage businesses. As of December 27, 2019, our market capitalization was ₱502,284 million, with a common share price of ₱85.00.

For each of the years ended December 31, 2016, 2017, and 2018, our food and beverage businesses had consolidated sales of ₱227,279 million, ₱251,589 million, and ₱286,378 million; consolidated gross profit of ₱75,171 million, ₱83,129 million, and ₱92,142 million; consolidated EBITDA of ₱44,795 million, ₱49,937 million, and ₱54,725 million; and net income of ₱24,002 million, ₱28,226 million, and ₱30,533 million, respectively.

For the nine-month period ended September 30, 2018, we had consolidated sales of ₱206,620 million, consolidated gross profit of ₱67,014 million, consolidated EBITDA of ₱39,949 million and consolidated net income of ₱22,929 million compared to consolidated sales of ₱226,365 million, consolidated gross profit of ₱70,327 million, consolidated EBITDA of ₱41,338 million and net income of ₱22,922 million for the nine-month period ended September 30, 2019.

Strengths

We believe that we benefit from the following competitive strengths:

- One of the largest consumer companies in the Philippines with a rich heritage of 130 years
- Powerful portfolio of iconic and trusted brands that resonate deeply with our local consumers
- Leading market positions in the most attractive consumer categories
- Strategically located production facilities providing strong competitive advantages
- Extensive distribution network across the Philippines covering diverse channels

- Powerful consumer insights drive growth, innovation, and new product development
- Cost efficiency initiatives and unique elements of business model driving strong profitability
- Highly experienced management team supported by the broader San Miguel Group and international partnerships

Strategies

Our principal long-term goal is to further strengthen and solidify our position as the leading food and beverage company in the Philippines, and consistently expand our business to meet rapidly growing consumer demand. We aim to achieve this goal by implementing the following strategies:

- Continued execution of regionally tailored strategies, leveraging on our unique understanding of our consumers
- Maintain our market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development
- Continue to broaden our distribution footprint and enhance penetration across channels throughout the Philippines
- Capacity expansions to support growing consumer demand
- Continued enhancement of profitability through cost saving initiatives
- Leverage existing platform and brand equity in international markets for further growth
- Exploit synergies across our combined and diversified consumer platform
- Cost synergies
- Revenue synergies
- SMFB's adoption of a new logo introduces the brand's promise of "Celebrating Life"

Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;
2. Risks relating to SMFB, its subsidiaries and their business and operations; and
3. The nature, the absence of a liquid secondary market and volatility, and other risks relating to the Offer.

(For a more detailed discussion, see "*Risk Factors*" on page 49)

Use of Proceeds

The gross proceeds of the Offer shall be ₱15,000,000,000.00. The net proceeds from the Offer, after deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and out-of-pocket expenses, is estimated to be ₱14,801,459,375.00 and will be used by the Company primarily for the redemption of the outstanding Series 2 Perpetual Preferred Shares of the Company.

Plan of Distribution

SMFB plans to undertake the Offer of the Bonds to institutional and retail investors through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners (for a more detailed discussion, see page 73).

Company Information

We are a Philippine corporation with its registered office located at 100 E. Rodriguez Jr. Avenue (C-5 Road), Barangay Ugong, Pasig City 1604 Metro Manila, Philippines. Our telephone number is: +632 5317 5000. Our website is: https://www.smfb.com.ph. The information on our website is not incorporated by reference into, and does not form part of this Prospectus.

SUMMARY OF THE OFFER

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and stockholders of the Issuer, the information contained in the Prospectus, the Trust Agreement, and the other Bond Agreements or other agreements relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are substitutes for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds. Specific references to times hereunder shall mean Philippine Standard Time.

Issuer	San Miguel Food and Beverage, Inc. (also referred as "**SMFB**")
Instrument	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of SMFB.
Offer Size	₱15,000,000,000.00
The Offer	The Bonds will be issued in 2 series, at the discretion of the Issuer: • 5-year Series A Bonds due 2025 • 7-year Series B Bonds due 2027 The Issuer has the discretion to change the Offer Size, allocate the Offer Size between Series A Bonds and Series B Bonds based on the bookbuilding process, and may opt to allocate the entire Offer Size in just one series.
Manner of Distribution	Public offering in the Philippines to eligible investors
Use of Proceeds	Proceeds of the Offer shall be used to: 1. Fund redemption of the outstanding Series 2 Perpetual Preferred Shares of SMFB; and 2. Payment of transaction-related fees, costs and expenses. For a detailed discussion on the Use of Proceeds please refer to the section on "*Use of Proceeds*" on page 67.
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.
Purchase Price	The Bonds shall be issued at 100% of face value.
Offer Period	The Offer shall commence at 9:00 a.m. on February 24, 2020 and end at 5:00 p.m. on March 3, 2020, or on such dates and time as the Issuer and the Joint Lead Underwriters and Bookrunners may agree upon.
Issue Date of the Bonds	March 10, 2020
Maturity Date	Series A Bonds: March 10, 2025 or the 5th anniversary of the Issue Date Series B Bonds: March 10, 2027 or the 7th anniversary of the Issue Date
Interest Rate	Series A Bonds: 5.05% per annum Series B Bonds: 5.25% per annum
Benchmark Rate	Series A Bonds: 3-day simple average of the 5-year BVAL rates for 3 consecutive days immediately preceding and including the Pricing Date

<table>
<tr><td></td><td>Series B Bonds: 3-day simple average of the 7-year BVAL rates for 3 consecutive days immediately preceding and including the Pricing Date</td></tr>
<tr><td>Interest Payment Dates and Interest Payment Computation</td><td>Interest payment on the Bonds shall commence on June 10, 2020 and thereafter, on September 10, December 10, March 10 and June 10 of each year, or the next Business Day if any such dates fall on a non-Business Day, during the term of the Bonds (each, an “Interest Payment Date”).

Interest on the Bonds shall be calculated on a European 30/360-day count basis regardless of the actual number of days in a month. Interest shall be paid quarterly in arrears.</td></tr>
<tr><td>Final Redemption</td><td>The Bonds shall be redeemed at par or 100% of face value (the “Final Redemption Amount”) on their respective Maturity Dates, unless earlier redeemed or purchased and cancelled by the Issuer.

In the event the relevant Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Registrar and Paying Agent, without adjustment for accrued interest and Final Redemption Amount, on the succeeding Business Day.</td></tr>
<tr><td>Optional Redemption</td><td>The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part) the outstanding Series A Bonds and Series B Bonds on the relevant Optional Redemption Date, as set out below:

<table>
<tr><th colspan="2">Series A Bonds</th></tr>
<tr><th>Optional Redemption Dates</th><th>Optional Redemption Price</th></tr>
<tr><td>On the 3rd year from Issue Date</td><td>101.0%</td></tr>
<tr><td>On the 4th year from Issue Date</td><td>100.5%</td></tr>
</table>

<table>
<tr><th colspan="2">Series B Bonds</th></tr>
<tr><th>Optional Redemption Dates</th><th>Optional Redemption Price</th></tr>
<tr><td>On the 5th year from Issue Date</td><td>101.0%</td></tr>
<tr><td>On the 6th year from Issue Date</td><td>100.5%</td></tr>
</table>

provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid. For the avoidance of doubt, the Bondholders shall not have any right to cause the Issuer to redeem the Bonds pursuant to this Optional Redemption Option.

The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Bonds being redeemed and the optional redemption price in accordance with the above table.

The Issuer shall give no more than 60 nor less than 30 days’ prior written notice to the Trustee, the Registrar and Paying Agent of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds on the Optional Redemption Date stated in such notice.

For a detailed discussion on the Optional Redemption please refer to the section on “Description on the Bonds – Optional Redemption” on page 34.</td></tr>
</table>

Redemption for Taxation Reasons	If payments under the Bonds become subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days' nor less than 30 days prior written notice to the Trustee, the Registrar and Paying Agent) at 100% of the face value and paid together with the accrued interest thereon, subject to the requirements of Applicable Law. For a detailed discussion on Redemption for Taxation Reasons please refer to the section on "*Description on the Bonds – Redemption for Taxation Reasons*" on page 35.
Redemption by Reason of Change in Law or Circumstance	Upon the occurrence of a Change in Law or Circumstance, the Issuer may redeem the Bonds in whole, but not in part, having given not more than 60 days' nor less than 30 days written notice to the Trustee, the Registrar and the Paying Agent, at 100% of the face value and paid together with the accrued interest thereon. For a detailed discussion on Redemption by Reasons of Change in Law or Circumstances please refer to the section on "*Description on the Bonds – Redemption by Reason of Change in Law or Circumstances*" on page 35.
Redemption by Reason of Change of Control	Upon the occurrence of a Change of Control, Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds may require the Issuer to redeem all (but not some) of the Bonds at 100% of face value, which shall be paid together with the accrued interest thereon. The occurrence of any of the following (a "**Change of Control**"): a) the Controlling Stockholders collectively cease to be the beneficial owners of at least 35% of the total voting power of the Voting Stock of the Issuer; or b) the Controlling Stockholders collectively cease to be the largest beneficial owners of the total voting power of the Voting Stock of the Issuer; or c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person or Persons (other than any of the Controlling Stockholders where such Controlling Stockholder assumes all of the obligations of the Issuer under the Trust Agreement and the Bonds) unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity. For a detailed discussion on Redemption by Reasons of Change of Control please refer to the section on "*Description on the Bonds – Redemption by Reason of Change of Control*" on page 36.
Status of the Bonds	The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMFB and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured Debt of SMFB, other than Debt mandatorily preferred by law, and preferred claims under any bankruptcy, insolvency, reorganization, moratorium, liquidation or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (but not the preference or priority established by Article 2244(14)(a) of the Civil Code of the Philippines).
Negative Pledge	The Bonds will have the benefit of a negative pledge on all properties and assets of the Issuer, subject to the exceptions to be described in page 39 of the Prospectus.
Covenants	Issuance of the Bonds shall be subject to standard covenants such as but not limited to cross-default provisions and adherence to certain financial ratios.
Listing	The Issuer will list the Bonds on the Philippine Dealing & Exchange Corp. ("**PDEx**") on the Issue Date.
Purchase and	The Issuer may purchase the Bonds at any time in the open market or by tender or

Cancellation	by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.
Bond Rating	The Bonds have been rated PRS Aaa by the Philippine Rating Services Corporation on December 4, 2019. The rating is subject to regular annual reviews, or more frequently as market developments may dictate, while the Bonds are outstanding.
Transfer of the Bonds	Trading of the Bonds will be coursed through a PDEx Trading Participant subject to the applicable PDEx rules and conventions. Trading, transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and the Registrar. Upon any assignment of the Bonds, title thereto will pass by recording of the transfer from the transferor to the transferee in the Registry of Bondholders to be maintained by the Registrar. For a detailed discussion on Transfer of the Bonds please refer to the section on "*Description on the Bonds – Transfer of the Bonds*" on page 32.
Joint Lead Underwriters and Bookrunners	BDO Capital & Investment Corporation ("**BDO Capital**") BPI Capital Corporation ("**BPI Capital**") China Bank Capital Corporation ("**China Bank Capital**") Philippine Commercial Capital Inc. ("**PCCI**") PNB Capital and Investment Corporation ("**PNB Capital**") RCBC Capital Corporation ("**RCBC Capital**") SB Capital Investment Corporation ("**SB Capital**")
Registrar and Paying Agent	Philippine Depository & Trust Corp. ("**PDTC**")
Trustee	Rizal Commercial Banking Corporation – Trust and Investment Group
Counsel to the Issuer	Picazo Buyco Tan Fider & Santos
Counsel to the Joint Lead Underwriters and Bookrunners	SyCip Salazar Hernandez & Gatmaitan
Incorporation by way of Reference	All disclosures, reports and filings of the Company made after the date of the Prospectus (the "**Company Disclosures**") and submitted to the SEC and/or the PSE and/or PDEx pursuant to the Corporation Code, the Securities Regulation Code and the Revised Disclosure Rules of the PSE and the Disclosure Rules of the PDEx are incorporated or deemed incorporated by reference in the Prospectus. Copies of the Company Disclosures may be viewed at the website of the Company at: https://www.smfb.com.ph. The Company Disclosures contain material and meaningful information relating to the Company and investors should review all information contained in the Prospectus and the Company Disclosures incorporated or deemed incorporated herein by reference.

Indicative Timetable

November 14, 2019	Filing of the Registration Statement and the Prospectus with the SEC
February 18, 2020	SEC En Banc Pre-effective Approval
February 20, 2020	Price Setting and Allocation
February 21, 2020	Receipt of SEC Permit to Sell
February 24 to March 3, 2020	Public Offer Period
March 10, 2020	Settlement Date Issue and Listing Date

SUMMARY OF HISTORICAL FINANCIAL AND OPERATING INFORMATION

Prospective purchasers of the Offer should read the summary financial data below together with the consolidated financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary financial data for the 3 years ended December 31, 2018, 2017 and 2016 are derived from the audited consolidated financial statements of SMFB, including the notes thereto, which are found as Appendix "B" of this Prospectus. The detailed financial information for the nine months ended September 30, 2019 and 2018 are found on Appendix "A" of this Prospectus.

The summary of financial and operating information of SMFB presented below as of and for the year ended December 31, 2018 was derived from the consolidated financial statements of SMFB, audited by R.G. Manabat & Co. formerly known as "Manabat Sanagustin & Co." and prepared in compliance with the PFRS. The comparative information as at and for the years ended December 31, 2017 and 2016, were audited by other auditors, and has been restated as a result of the retrospective application of the pooling of interests method for the acquisition of San Miguel Brewery Inc. and Ginebra San Miguel Inc. by the Issuer which is considered a business combination of entities under common Control. The financial and operating information of SMFB presented below as of and for the nine months ended September 30, 2019 and 2018 were derived from the unaudited consolidated financial statements of SMFB prepared in compliance with PAS 34, "Interim Financial Reporting". The information below should be read in conjunction with the consolidated financial statements of SMFB and the related notes thereto, which are included in Appendices "A" and "B" of this Prospectus. The historical financial condition, results of operations and cash flows of SMFB are not a guarantee of its future operating and financial performance.

Summary of Consolidated Statements of Income Information

	For the years ended December 31			For the nine months ended September 30	
	2016	2017	2018	2018	2019
	(in millions except per share data)				
Sales…………………………………………	₱227,279	₱251,589	₱286,378	₱206,620	₱226,365
Cost of sales…………………………………	152,108	168,460	194,236	139,606	156,038
Gross profit…………………………………	75,171	83,129	92,142	67,014	70,327
Selling and administrative expenses………..…	(38,128)	(40,728)	(46,192)	(32,989)	(36,742)
Interest expense and other financing charges………………………………………	(3,212)	(2,658)	(2,998)	(2,025)	(2,316)
Interest income………………………………	511	669	1,178	831	968
Equity in net losses of joint ventures…………..	(97)	(186)	(83)	(64)	(191)
Gain on sale of investments and property and equipment……………………………………	149	-	7	2	(1)
Other income (charges) – net…………………	(295)	(365)	(693)	(281)	303
Income before income tax……………………	34,099	39,861	43,361	32,488	32,348
Income tax expense…………………………	10,097	11,635	12,828	9,559	9,426
Net income…………………………………	₱24,002	₱28,226	₱30,533	₱22,929	₱22,922
Attributable to:					
Equity holders of the Parent Company ...……	14,739	17,305	18,245	13,731	12,653
Non-controlling interests……………………	9,263	10,921	12,288	9,198	10,269
	₱24,002	₱28,226	₱30,533	₱22,929	₱22,922
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company…………………………….	₱2.35	₱2.78	₱2.94	₱2.22	₱2.03

Summary Statements of Financial Position Information

	As of December 31			As of September 30
	2016	2017	2018	2019
	(in millions except per share data)			
Current assets:				
Cash and cash equivalents	₱30,332	₱35,540	₱39,425	₱23,441
Trade and other receivables – net	18,728	18,237	19,554	18,647
Inventories	25,296	28,358	38,662	41,372
Current portion of biological assets – net	3,122	3,422	4,245	4,126
Prepaid expenses and other current assets	4,283	4,872	5,148	4,833
Total current assets	81,761	90,429	107,034	92,419
Noncurrent assets:				
Investments	518	399	339	165
Property, plant and equipment	41,583	51,125	61,921	70,831
Right-of-use assets – net	-	-	-	4,640
Investment property – net	2,480	2,100	2,348	2,862
Biological assets – net of current portion	2,263	2,695	2,844	3,147
Goodwill – net	996	996	996	996
Other intangible assets – net	40,193	40,786	40,950	39,800
Deferred tax assets	3,134	2,791	2,463	2,697
Other noncurrent assets – net	11,459	13,782	19,609	21,950
Total noncurrent assets	102,626	114,674	131,470	147,088
Total assets	₱184,387	₱205,103	₱238,504	₱239,507
Current liabilities				
Notes payable	₱13,124	₱13,939	₱21,979	₱22,482
Trade payables and other current liabilities	26,858	33,609	43,370	44,254
Lease liabilities – current portion	-	-	-	664
Income and other taxes payable	5,088	5,734	5,602	5,158
Dividends payable	26	30	34	40
Current maturities of long-term debt – net of debt issue costs	3,113	114	12,920	234
Total current liabilities	48,209	53,426	83,905	72,832
Noncurrent liabilities				
Long term debt – net of current maturities and debt issue costs	34,733	34,665	22,788	22,634
Deferred tax liabilities	140	53	53	53
Lease liabilities – noncurrent portion	-	-	-	3,582
Other noncurrent liabilities	2,261	2,338	1,643	1,463
Total noncurrent liabilities	37,134	37,056	24,484	27,732
Total Liabilities	85,343	90,482	108,389	100,564
Equity				
Equity holders of the Parent Company	68,695	78,682	87,594	92,407
Non-controlling interest	30,349	35,939	42,521	46,536
Total equity	99,044	114,621	130,115	138,943
Total liabilities and equity	₱184,387	₱205,103	₱238,504	₱239,507

Summary Statements of Cash Flows Information

	For the years ended December 31			For the nine months ended September 30	
	2016	2017	2018	2018	2019
	(in millions except per share data)				
Net cash flows provided by operating activities...	₱29,296	₱40,898	₱36,827	₱27,113	₱29,887
Net cash flows used in investing activities………	(13,483)	(20,410)	(26,013)	(18,239)	(18,249)
Net cash flows used in financing activities………	(11,343)	(15,307)	(7,378)	(9,320)	(27,483)
Effect of exchange rate changes on cash and cash equivalents……………………………………….	282	27	449	694	(139)
Net increase (decrease) in cash and cash equivalents……………………………………….	4,752	5,208	3,885	248	(15,984)
Cash and cash equivalents at beginning of year/period……………………………………….	25,580	30,332	35,540	35,540	39,425
Cash and cash equivalents at end of year/period...	₱30,332	₱35,540	₱39,425	₱35,788	₱23,441

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and stockholders of the Company, the information contained in the Prospectus, the Trust Agreement, and the other Bond Agreements or other agreements, Applicable Law, rules and regulations of PDTC and PDEx relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds.

The Offer and issuance of the Bonds was authorized by a resolution of the Board of Directors of the Company on November 6, 2019. The Bonds with an aggregate principal amount of ₱15,000,000,000.00 shall be issued. The Bonds will be issued on the Issue Date, that is March 10, 2020 and will comprise of 5-year Series A Bonds due 2025 and 7-year Series B Bonds due 2027.

The Bonds shall be governed by a Trust Agreement dated February 20, 2020 between the Issuer and Rizal Commercial Banking Corporation – Trust and Investments Group as Trustee. The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A Registry and Paying Agency Agreement in relation to the Bonds was executed on February 20, 2020 between the Issuer and PDTC as Registrar and Paying Agent. PDTC has no interest in or relation to the Issuer which may conflict with the performance of its functions.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Agreement and all the provisions of the Registry and Paying Agency Agreement applicable to them.

Form and Denomination

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing each of the Series A Bonds, and Series B Bonds sold in the Offer shall be issued to and registered in the name of the Trustee for the benefit of the Bondholders.

The Bonds shall be issued in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

Title

Legal title to the Bonds will be shown in the Registry of Bondholders maintained by the Registrar and Paying Agent. A notice confirming the principal amount of the Bonds purchased by each Applicant in the Offer shall be issued by the Registrar and Paying Agent to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording the transfer from the transferor to the transferee in the Registry of Bondholders maintained by the Registrar and Paying Agent. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfer or change, including, but not limited to, documentary stamps taxes, if any, shall be for the account of the relevant Bondholder or the transferee, as applicable.

Bond Rating

The Bonds have been rated PRS Aaa by PhilRatings. PRS Aaa is the highest rating assigned by PhilRatings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The rating is subject to regular annual review, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

Transfer of the Bonds

Registry of Bondholders

The Issuer shall cause the Registry of Bondholders to be kept by the Registrar in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and assignments of Bonds, including any liens and encumbrances thereon, shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the Closed Period (as defined below).

Transfers: Tax Status

Trading of the Bonds will be coursed through PDEX Trading Participant subject to the applicable PDEx rules and conventions. Trading, transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and the Registrar and Paying Agent. Upon any assignment of the Bonds, title thereto will pass by recording of the transfer from the transferor to the transferee in the Registry of Bondholders to be maintained by the Registrar.

Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder or the transferee, as applicable.

Subject to the provisions of the Registry and Paying Agency Agreement, the relevant rules, conventions and guidelines of PDEx and PDTC, the Bondholders may not transfer their Bonds as follows:

(a) transfers across Tax Categories on a date other than on Interest Payment Dates that fall on a Business Day; provided, however, that transfers from a tax-exempt Tax Category to a taxable Tax Category on a date other than an Interest Payment Date shall be allowed using the applicable tax rate on PDEx, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt person shall be treated as being of the same Tax Category as its taxable counterparty for the interest period within which such transfer occurred; provided, finally, that this restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented. For purposes hereof, "Tax Categories" shall refer to the four (4) final withholding tax categories in the PDEx system covering, particularly, tax-exempt persons, 20% tax-withheld persons, 25% tax-withheld persons, and 30% tax-withheld persons, as such categories may be revised, amended or supplemented by PDEx in accordance with its rules and Applicable Law;

(b) transfers by Bondholders with deficient documents; and

(c) transfers during a Closed Period. For purposes hereof, "Closed Period" means period during which the Registrar and Paying Agent shall not register any transfer or assignment of the Bonds, specifically: (i) the period of two (2) Business Days preceding any Interest Payment Date or the due date for any payment of the Final Redemption Amount of the Bonds; or (ii) the period when any of the Bonds have been previously called for redemption.

Transfers taking place in the Registry of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if/and or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

A Bondholder claiming tax-exempt status is required to submit to the Registry of Bondholders the required tax-exempt documents as detailed in the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar and Paying Agent. Please see the sections on "*Description of the Bonds – Tax-Exempt Status or Entitlement to Preferential Tax Rate*" for a detailed discussion on the requirements for claiming a preferential tax status.

Notwithstanding the submission by the Bondholder, or the receipt by the Issuer, the Registrar and Paying Agent, the Joint Lead Underwriters and Bookrunners of documentary proof of tax-exempt status of a Bondholder, the Issuer may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Bonds. Any question on such determination shall be referred to the Issuer.

The Bondholders shall be responsible for monitoring and accurately reflecting their tax status in the Registry of Bondholders. The payment report to be prepared by the Registrar and Paying Agent and submitted to the Issuer in accordance with the Registry and Paying Agency Agreement, which shall be the basis of payments on the Bonds on any Interest Payment Date, shall reflect the tax status of the Bondholders as indicated in their accounts as of the Record Date.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds on PDEx for secondary market trading and, for that purpose, the Issuer has filed an application for such listing. However, there can be no assurance that such a listing will actually be achieved or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing would be subject to the Issuer's execution of a listing agreement with PDEx that may require the Issuer to make certain disclosures, undertakings and payments on an ongoing basis.

For so long as any of the Bonds are listed on PDEx, the Bonds will be traded in a minimum board lot size of ₱10,000.00, and in multiples of ₱10,000.00 in excess thereof. Secondary market trading in PDEx shall follow the applicable PDEx Rules, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC, all of which shall be for the account of the Bondholders.

Ranking

The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMFB and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured Debt of SMFB, other than Debt mandatorily preferred by law, and preferred claims under any bankruptcy, insolvency, reorganization, moratorium, liquidation or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (but not the preference or priority established by Article 2244(14)(a) of the Civil Code of the Philippines).

Interest and Interest Payment Dates

The Series A Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 5.05% *per annum*, payable quarterly in arrears starting on June 10, 2020 as the first Interest Payment Date, and on September 10, December 10, March 10, and June 10 of each year at which the Bonds are outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The Series B Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 5.25% *per annum*, payable quarterly in arrears starting on June 10, 2020 as the first Interest Payment Date, and on September 10, December 10, March 10, and June 10 of each year at which the Bonds are outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest, principal or any other amount due under the Bonds shall be two (2) Business Days prior to the relevant Payment Date or such other date as the Issuer may duly notify PDTC (the "**Record Date**"). The Record Date shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during the Closed Period.

Interest Accrual

The Bonds shall cease to bear interest from and including the relevant Maturity Date, as defined in the discussion on "*Description of the Bonds - Final Redemption*" below, unless, upon due presentation, payment of the principal in respect of the Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "*Description of the Bonds - Penalty Interest*" below) shall apply.

Determination of Interest

Interest on the Bonds shall be calculated on a European 30/360 day count basis, regardless of the actual number of days in a month.

Redemption and Purchase

Final Redemption

Unless otherwise earlier redeemed or purchased and cancelled, each of the Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates. However, if the relevant Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Each Bondholder in whose name the Bonds are registered in the Registry of Bondholders at the close of business on the Record Date preceding the relevant Maturity Date shall be entitled to receive the principal amount of the Bonds. In all cases, repayment of principal shall be remitted to the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Optional Redemption

The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series A Bonds, or Series B Bonds on the dates set out below (each an "**Optional Redemption Date**"):

Series A Bonds	
Optional Redemption Dates	**Optional Redemption Price**
On the 3rd year from Issue Date	101.0%
On the 4th year from Issue Date	100.5%

Series B Bonds	
Optional Redemption Dates	**Optional Redemption Price**
On the 5th year from Issue Date	101.0%
On the 6th year from Issue Date	100.5%

provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid. For the avoidance of doubt, the Bondholders shall not have any right to cause the Issuer to redeem the Bonds pursuant to this Optional Redemption Option.

The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Bonds being redeemed and the optional redemption price in accordance with the above table.

The Issuer shall give no more than 60 nor less than 30 days' prior written notice to the Trustee, Registrar and Paying Agent of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds on the Optional Redemption Date stated in such notice. Upon receipt by the Trustee of such notice, the Trustee through the Issuer shall secure from the Registrar and Paying Agent an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the interest and optional redemption price. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the relevant Bond series in whole, and not in part only, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' written notice to the Trustee, Registrar and Paying Agent) at par (or 100% of face value) and paid together with the accrued interest thereon, subject to the requirements of Applicable Law; provided that if the Issuer does not redeem the Bonds then all payments of principal and interest in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any such new or additional taxes, duties, assessments or governmental charges, unless such withholding or deduction is required by Applicable Law. In that event, the Issuer shall pay to the Bondholders concerned such additional amount as will result in the receipt by such Bondholders of such amounts as would have been received by them had no such withholding or deduction for new or additional taxes been required.

Upon receipt by the Trustee of a written notice from the Issuer hereunder, the Trustee through the Issuer shall secure from the Registrar and Paying Agent an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption by Reason of Change in Law or Circumstance

Upon the occurrence of a Change in Law or Circumstance (as enumerated below), the Issuer may redeem the Bonds in whole, but not in part, having given not more than 60 days nor less than 30 days' written notice to the Trustee, the Registrar and the Paying Agent, at par (or 100% of the face value) and paid together with the accrued interest thereon.

The following events shall be considered as Changes in Law or Circumstance as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which will materially and adversely affect the ability of the Issuer to comply with such obligations; or

(b) Any provision of the Bond Agreements (in whole or in part) is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder or to enforce any provision thereunder; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the Issuer of its obligations under the Bonds Agreements; or

(c) Any concession, permit, right, franchise or privilege required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer; or

(d) The Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer or the same does not materially and adversely affect the financial condition or operations of the Issuer.

Upon receipt by the Trustee of a written notice from the Issuer on the occurrence of any Change in Law or Circumstance, the Trustee shall secure from the Registrar and Paying Agent an updated list of Bondholders and as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

The Bondholders shall not have any right to cause the Issuer to redeem the Bonds pursuant to a Change in Law or Circumstance under this section.

Redemption by Reason of Change of Control

Upon the occurrence of a Change of Control, Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds may require the Issuer to redeem all (but not some) of the Bonds at 100% of face value, which shall be paid together with the accrued interest thereon. Within fifteen (15) days following a Change of Control, the Issuer shall notify the Trustee, which shall, in turn, notify the Bondholders (i) that a Change of Control has occurred and that the Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds may require the Issuer to repurchase all (but not some) of the Bonds; and (ii) the date set by the Issuer for such repurchase (which shall not be earlier than forty-five (45) days and no later than sixty (60) days from the date written notice is received by the Trustee). The decision of the Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds under this section shall be conclusive and binding upon all the Bondholders.

Each Bondholder in whose name the Bonds are registered in the Registry of Bondholders at the close of business on the Record Date indicated in the notice to the Bondholders shall be entitled to receive the principal of the Bonds and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Purchase and Cancellation

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Bonds in the PDEx, the Issuer shall disclose any such transaction in accordance with the applicable PDEx disclosure rules.

Payments

The principal of, interests on, and all other amounts payable on the Bonds shall be paid to the Bondholders through the Paying Agent. The Paying Agent shall credit the proper amounts received from the Issuer via RTGS, net of final taxes and fees (if any), to the cash settlement banks of the Bondholders (nominated by the Bondholders in the Application to Purchase or as the Bondholder may notify the Paying Agent in writing), for onward remittance to the relevant cash settlement account of the Bondholder with the cash settlement bank. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos.

The Issuer shall ensure that so long as any of the Bonds remain outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint such other leading institution in the Philippines authorized to act in its place.

In the event that the details of the cash settlement account indicated by the relevant Bondholder in the Application to Purchase are incomplete or erroneous, or the cash settlement account of the relevant Bondholders has been closed, dormant, or inexistent, due to which payments to the Bondholders cannot be effected in a timely manner, the relevant cash settlement bank shall handle such funds in accordance with its own internal procedures until the correction of the cash settlement account is effected and until credit of the relevant cash entitlement is completed.

In these cases, the Issuer and the Paying Agent shall not be liable to the relevant Bondholder for any failure or delay in the Bondholder's receipt of such payments.

Payment of Additional Amounts – Taxation

Interest income on the Bonds is subject to a withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

(a) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time; provided, further, that all Bondholders are required to provide the Issuer through the Bondholders' Selling Agent or PDEx Trading Participant and endorsed to the Registrar and Paying Agent their validly issued tax identification numbers issued by the BIR;

(b) Gross Receipts Tax under Section 121 of the Tax Code;

(c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding;

(d) Value-Added Tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337; and

(e) Any applicable taxes on any subsequent sale or transfer of the Bonds by any holder which shall be for the account of such holder (or its buyer, as the holder and the buyer may have agreed upon).

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Please see the section on "*Taxation*" in the Prospectus for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition of the Bonds.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar and Paying Agent, subject to acceptance by the Issuer, as being sufficient in form and substance:

(a) BIR-certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Bondholder, confirming its exemption or its entitlement to the preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;

(b) with respect to tax treaty relief:

   (i) for Applicant investors, (1) 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief ("**CORTT**") Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer upon the submission of the Application to Purchase or no later than the 1st day of the month when the initial interest payment date shall fall due. For subsequent interest payment/s due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due.

(ii) For transferee Bondholders, (1) 3 originals of a duly accomplished valid, current and subsisting CORTT Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No.8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer through the Registrar upon the submission of the account opening documents or no later than the 1st day of the month when the first interest payment date shall fall due following the transfer of the Bonds to the said transferee Bondholder. For subsequent interest payment/s due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(c) a duly notarized undertaking executed by (i) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Bonds for its account, or (ii) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent (1) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (2) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (3) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such investor shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and

(d) such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under the applicable regulations of the relevant taxing or other authorities; provided, that, the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholders on the Interest payments to such Bondholders.

Unless otherwise indicated above, the foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, upon submission of the Application to Purchase to the Joint Lead Underwriters and Bookrunners or Selling Agents (if any) who shall then forward the same to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the account opening documents.

Failure on the part of the Bondholder to submit the aforementioned document/s within the time prescribed shall result in the application of the regular tax rates.

Financial Covenants

So long as any of the Bonds remain outstanding, the Issuer undertakes not to incur Debt if on the Transaction Date, after giving effect to the incurrence of such Debt, but not giving effect to the receipt or application of proceeds therefrom:

1. the ratio of the Consolidated Debt to Consolidated Equity shall be more than 3.50x; and

2. the ratio of Consolidated Total EBITDA to Consolidated Interest Expense shall be less than 2.00x.

Negative Pledge

The Issuer will not, and shall procure that none of its Material Subsidiaries shall, without the consent of the Majority Bondholders, (a) create, assume, incur or suffer to exist any Lien upon any of their respective properties or assets; and (b) sell, transfer or otherwise dispose of any of their respective assets on terms whereby they are or may be leased to or re-acquired by the Issuer or any member of the Group, in each case, where the arrangement or transaction is entered into primarily as method of raising Debt or of financing acquisitions of an asset, provided that the foregoing restrictions shall not apply to any Permitted Liens.

Events of Default

Each of the following events shall constitute an "**Event of Default**" under the Bonds and the Trust Agreement:

(a) the Issuer defaults in the payment when due of any amount payable to the Bondholders under the Trust Agreement unless such failure arises solely as a result of an administrative or technical error or a Disruption Event and payment is made within five (5) Business Days after the date such payment is due (a "***Payment Default***");

(b) the Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Trust Agreement (other than by reason of paragraph (a) above), and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of thirty (30) Days (or such longer curing period granted to the Issuer by the Majority Bondholders) from the date after written notice thereof shall have been received by the Issuer from the Trustee;

(c) any representation or warranty which is made by the Issuer in the Trust Agreement, or any certificate delivered by the Issuer under the Trust Agreement, shall prove to have been untrue or incorrect in any material respect as of the time it was made;

(d) any Debt of the Issuer, whether singly or in the aggregate, in excess of USD50 million or its equivalent in Pesos or other currencies, using the PDS closing rate of the immediately preceding Business Day, is not paid on its due date or within any applicable grace period or is declared to be due and payable prior to its stated date of payment (except where liability for payment of that Debt is being contested in good faith by appropriate means);

(e) a decree or order by a court or other Governmental Authority having jurisdiction over the premises is entered without the consent or application of the Issuer:

(1) adjudging the Issuer bankrupt or insolvent;

(2) approving a petition seeking a suspension of payments by or a reorganization of the Issuer under any applicable bankruptcy, insolvency or reorganization law;

(3) appointing a receiver, liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of all or substantially all of the business or assets of the Issuer;

(4) providing for the winding-up or liquidation of the affairs of the Issuer;

(5) with a view to the rehabilitation, administration, liquidation, winding-up or dissolution of the Issuer; or

(6) taking other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (5) above (inclusive);

provided, that, the issuance of any such decree or order shall not be an Event of Default if the same shall have been dismissed or stayed by injunction or otherwise within ninety (90) days from issuance thereof;

(f) the Issuer:

(1) institutes voluntary proceedings to be adjudicated bankrupt or insolvent or consents to the filing of a bankruptcy or insolvency proceeding against it;

(2) files a petition seeking a suspension of payments by it or its reorganization under any applicable bankruptcy, insolvency or reorganization law or consents to the filing of any such petition;

(3) seeks or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets;

(4) makes an assignment for the benefit of its creditors or admits in writing its inability to pay its debts generally as they become due;

(5) files a petition seeking the winding-up or liquidation of its affairs or consents to the filing of any such petition;

(6) takes any other step with a view to its rehabilitation, administration, liquidation, winding-up or dissolution or a suspension of payments by it; or

(7) takes other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (6) above (inclusive);

(g) final and executory judgment(s) or order(s) are rendered by a court of competent jurisdiction against the Issuer or its properties or assets from which no appeal may be made for the payment of money which will have a Material Adverse Effect and such judgment or order shall continue unsatisfied or undischarged after ninety (90) days;

(h) the Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily for a period of thirty (30) consecutive days except in cases of strike, lockout, or closure when necessary to prevent business losses or when due to fortuitous events, or in cases of force majeure, provided that in any such event of strikes, lockouts, closure, or force majeure, there is no Material Adverse Effect; and

(i) any event or circumstance that will have a Material Adverse Effect has occurred and is continuing.

Notice of Default

The Trustee shall, within five (5) Business Days after receipt of written notice from the Issuer or the Majority Bondholders of the occurrence of an Event of Default, give to all the Bondholders written notice of any such Event of Default unless the same shall have been cured before the giving of such notice; provided, that in the case of a Payment Default (as described in paragraph (a) of the "*Description of the Bonds – Events of Default*"), the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment Default.

Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing after the lapse of the period given to the Issuer within which to cure such Event of Default, if any, or upon the occurrence of such Event of Default for which no cure period is provided, (i) the Trustee upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or (ii) the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the Issuer in default ("**Declaration of Default**") and declare the principal of the Bonds then outstanding, together with all accrued and unpaid interest thereon and all amounts due thereunder, to be due and payable not later than five (5) Business Days from the receipt of the Declaration of Default ("**Default Payment Date**") with a copy to the Registrar and Paying Agent who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon, the Issuer shall make all payments due on the Bonds in accordance with the Registry and Paying Agency Agreement.

(b) All the unpaid obligations under the Bonds, including accrued interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, or otherwise, is not paid on the relevant due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay a penalty fee on the defaulted amount(s) at the rate of six percent (6%) per annum (the "**Penalty Interest**") from the time the amount fell due until it is fully paid in accordance with the Terms and Conditions of this Offer and the Trust Agreement.

Payments in the Event of Default

Upon the occurrence of any Event of Default, and provided that there has been a Declaration of Default and acceleration of payment of the Bonds by the Majority Bondholders, then in any such case:

(a) the Issuer will pay the Bondholders, through the Registrar and Paying Agent, the whole amount which shall then have become due and payable on such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest, where applicable, based on the payment report no later than the Default Payment Date. The Issuer also undertakes that it shall give the Trustee written notice of its intention to make any payments under this paragraph (a); and

(b) the Trustee shall have the right to require the Registrar and Paying Agent, upon demand in writing, to do the following:

  (i) to hold all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or

  (ii) deliver all evidences of the Bonds and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such demand; provided, that such demand shall be deemed not to apply to any documents or records which the Registrar and Paying Agent is not allowed to release by any law or regulation; and/or

  (iii) subject to the terms of the Registry and Paying Agency Agreement, apply any money received from the Issuer pursuant to this section in the order of preference provided in the "*Description of the Bonds – Application of Payments"* below.

Application of Payments

Any money collected by the Trustee as a consequence of a Declaration of Default and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds or to the Registry and Paying Agency Agreement, shall be applied by the Trustee in the order of preference as follows:

(a) *First*: to the *pro rata* payment to the Trustee, the Registrar and Paying Agent and PDEx of the reasonable, actual and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable, actual and documented expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Bonds.

(b) *Second*: to the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest based on the information on Bondholders reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.

(c) *Third*: to the payment of the principal amount of the Bonds then due and payable based on the information on Bondholders reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.

(d) *Fourth*: the remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and interest or other sums payable under the Bonds shall prescribe unless the claim is made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion under "*Description of the Bonds – Ability to File Suit*."

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer under the Trust Agreement on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds in accordance with the provisions on notice of default (See *Description of the Bonds – Notice of Default*); (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Trust Agreement, or may on behalf of the Bondholders waive any past default except the Events of Default defined as a Payment Default, insolvency default or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights under the Trust Agreement; provided, that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

Substitution

Substitution of the Bonds is not contemplated.

Trustee; Notices

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice to the Trustee

All documents required to be submitted to the Trustee and all other notices, requests and other communications must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) or emailed to the Trustee at the following address, facsimile number or email address; and addressed to the individuals named below:

To the Trustee:

RIZAL COMMERCIAL BANKING CORPORATION –
TRUST AND INVESTMENTS GROUP
9/F Yuchengco Tower RCBC Plaza 6819 Ayala Avenue,
Makati City

Attention:	Ryan Roy W. Sinaon
Telephone No.:	(+632) 8894-9000 local 1278
Facsimile:	(+632) 8878-3377
Email:	rwsinaon@rcbc.com

All such notices, requests and other communications will: (i) if delivered personally to the address as provided above, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided above, be deemed given upon receipt, in readable form; and (iii) if delivered by mail or email in the manner described above to the address as provided above, be deemed given upon receipt and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other Person on behalf of such individual to whom a copy of such notice, request or other communication is to be delivered). The Trustee may from time to time change its address, facsimile number or other information for the purpose of notices hereunder by giving notice specifying such change.

Any notice, report or communication received on a non-working day or after business hours in the place of receipt will only be deemed given on the next working day in that place.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Registry of Bondholders. Except where a specific mode of notification is provided for in the Bond Agreements, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) by publication for at least once a week for two (2) consecutive weeks in at least two (2) newspapers of general circulation in the Philippines; (iv) personal delivery to the address of record in the Registry of Bondholders; or (v) disclosure through the Online Disclosure System of the PDEx. The Trustee shall rely on the Registry of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by ordinary mail; (iii) on the date of last publication, if notice is made by publication; or (iv) on the date of delivery, for personal delivery; or (v) on the date of disclosure, if notice is made by disclosure through the Online Disclosure System of the PDEx.

A notice made by the Issuer to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the PDEx on a matter relating to the Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication or the date of the disclosure, as the case may be.

Duties and Responsibilities of the Trustee

The Trustee, shall be responsible for performing, among others, the following duties for the benefit of the Bondholders, including, but not limited to:

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

(b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement.

In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such diligence, judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters will exercise in the management of their own affairs.

(c) None of the provisions contained in the Trust Agreement and the Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers under the Trust Agreement.

Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer of such resignation.

(b) Upon receipt of such notice of resignation of the Trustee, the Issuer shall immediately appoint a replacement trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the replacement trustee. If no replacement shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a replacement, or any Bondholder who has been a bona fide holder for at least the immediately preceding six (6) months may, for and in behalf of the Bondholders, petition any such court for the appointment of a replacement. Such court may thereupon after notice, if any, as it may deem proper, appoint a replacement trustee.

(c) Subject to paragraph (f) below, a replacement trustee must possess all the qualifications required under pertinent laws and the Trust Agreement.

(d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, or for other causes set out in the Trust Agreement, then the Issuer may within thirty (30) days therefrom remove the Trustee, and appoint a replacement trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the replacement trustee. If the Issuer fails to remove the Trustee and appoint a replacement trustee, any Bondholder may, on behalf of himself and all other Bondholders, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a replacement trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a replacement trustee.

(e) The Majority Bondholders may at any time remove the Trustee for cause, and with consent of the Issuer, appoint a replacement trustee, by the delivery to the Trustee so removed, to the replacement trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders, which removal shall take effect thirty (30) days from receipt of such notice by the Trustee; provided, that if no replacement trustee shall have been appointed within ninety (90) days from the receipt of the Issuer of the required evidence of the action taken, the Majority Bondholders may appoint a replacement trustee without the consent of the Issuer. This is without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.

(f) Any resignation or removal of the Trustee and the appointment of a replacement trustee pursuant to any of the provisions in the Trust Agreement shall become effective upon the earlier of: (i) the acceptance of appointment by the replacement trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided, however, that after the effectivity of the resignation notice and, as relevant, until such replacement trustee is qualified and appointed, the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the replacement trustee promptly upon the appointment thereof by the Issuer.

Replacement Trustee

(a) Any replacement trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor trustee shall become effective and such replacement trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the replacement trustee, the trustee ceasing to act as such shall execute and deliver an instrument transferring to the replacement trustee, all the rights, powers and duties of the trustee so ceasing to act as such. Upon request of any such replacement trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such replacement trustee all such rights, powers and duties.

(b) Upon acceptance of the appointment by a replacement Trustee, the Issuer shall notify the Bondholders in writing, of the replacement of such trustee to the trusteeship and/or by publication once in a newspaper of general circulation in Metro Manila, Philippines. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the replacement trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

Only upon the existence of either (a) and (b) below, the Trustee shall submit to the Bondholders on or before March 1 of each year from the Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

(a) the property and funds, if any, physically in the possession of the Registrar and Paying Agent held in trust for the Bondholders on the date of such report which shall be based on the report to be given by the Registrar and Paying Agent to the Trustee upon request by the Trustee through the Issuer; and

(b) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Registrar and Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, the remaining unpaid amounts of such advance is at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

Inspection of Documents

Upon due notice to the Trustee, the following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

(a) the Trust Agreement
(b) the Registry and Paying Agency Agreement
(c) the Articles of Incorporation and By-Laws of the Company
(d) the Registration Statement of the Company with respect to the Bonds (including the Bonds) with the Prospectus

Meetings of Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, on its own accord or upon the written request by the Issuer, or the Majority Bondholders, for purposes of taking any actions authorized under the Trust Agreement. The meeting may be held at such time and at such place as the Trustee shall determine.

Unless otherwise provided in the Trust Agreement, the Trustee shall give notice of every meeting of the Bondholders (which notice must set forth the time, place, and purpose of such meeting in reasonable detail) to the

Issuer and each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting and shall publish such notice once in a newspaper of general circulation; provided, that the Trustee shall fix the record date for determining the Bondholders entitled to notice and vote during the meeting, which record date shall not be earlier than forty-five (45) days before the date of the meeting; provided, further, that all reasonable, actual and documented costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement, subject to obtaining prior written consent of the Issuer for reasonable, actual and documented costs and expenses in excess of Fifty Thousand Pesos (₱50,000.00) per occurrence; provided, further, that any meetings of the Bondholders shall be held at such time and place within Metro Manila as the party requesting such meeting may determine.

Failure of the Trustee to Call a Meeting

Failure of the Trustee to call a meeting upon the written request of either the Issuer or the Majority Bondholders within five (5) Business Days from receipt of such request shall entitle the requesting party to send and publish the appropriate notice of Bondholders' meeting and fix the record date for determining the Bondholders entitled to attend and vote in accordance with the procedure set forth under "*Description of the Bonds – Notice of Meetings*". The costs for calling such a meeting shall be for the Trustee's account in case of unjustified failure of the Trustee to call the meeting is due to its willful misconduct, fraud, evident bad faith or gross negligence.

Quorum

The presence of Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders. The Trustee shall determine and record the presence of the Majority Bondholders based on the list of Bondholders prepared by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement (which list shall include all information necessary to the performance of the duties and powers of the Trustee under the Trust Agreement, such as, but not limited to, specimen signatures of the Bondholders' authorized signatories). The Registrar and Paying Agent shall provide the Trustee with the foregoing list and information upon receipt of a written request from the Trustee.

Procedure for Meetings

(a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Majority Bondholders as provided under "*Description of the Bonds – Failure of the Trustee to Call a Meeting*" in which case the Issuer or the Majority Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting. The elected secretary shall take down the minutes of the meeting, covering all matters presented for resolutions by and the results of the votes cast by the Bondholders entitled to vote at the meeting and/or the Person appointed in writing by a public instrument as proxy or agent by any such Bondholder in accordance with the procedure set forth in "*Description of the Bonds – Voting Rights*". The elected secretary shall immediately provide the Trustee with a copy of the minutes of the meeting which copy shall be made available at any time to the Issuer and all Bondholders upon receipt of written request.

(b) Any meeting of the Bondholders may be adjourned from time to time for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called, and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by Persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a Person should be a registered holder of the Bonds as reflected in the Registry of Bondholders on the relevant record date fixed by the Trustee, the Issuer or the Majority Bondholders (as the case may be), or a Person appointed in writing by a public instrument as proxy or agent by any such Bondholder (and, in case of corporate or institutional Bondholders, duly supported by the resolutions of its board of directors or equivalent body authorizing the appointment of the proxy or agent duly certified by its corporate secretary or an authorized officer) for the meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00). The only Persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the Persons entitled to vote at such meeting, the Trustee, and any representative of the Issuer and its legal counsel.

Voting Requirement

Except as provided in "*Description of the Bonds - Amendments*", all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders (present or represented in a meeting at which there is a quorum). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations (not inconsistent with the Trust Agreement) as it may deem advisable for any meeting of the Bondholders, with regard to proof of ownership of the Bonds, the appointment of proxies by the Bondholders, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder also represents and warrants to the Trustee and to the Issuer that it has independently and, without reliance on the Trustee or the Issuer, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Bonds and on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all claims, liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations under the Trust Agreement, except for its gross negligence, fraud, evident bad faith or willful misconduct.

Amendments

The Issuer and the Trustee may, without prior notice to or the consent of the Bondholders or other parties, amend or waive any provisions of the Trust Agreement if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency; provided, in all cases, that such amendment or waiver does not adversely affect the interests of the Bondholders; provided, further, that all Bondholders are notified of such amendment or waiver.

With the consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors or the executive committee of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental to the Trust Agreement for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, that no such supplemental agreement shall:

(a) without the consent of all Bondholders affected thereby: (i) extend the maturity date of the Bonds; or (ii) reduce the principal amount of the Bonds; or (iii) reduce the rate or extend the time of payment of interest and principal thereon;

(b) impair the right of any Bondholder to (i) receive payment of principal of and interest on the Bonds on or after the due dates therefore or (ii) to institute suit for the enforcement of any payment on or with respect to such Bondholder;

(c) affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders;

(d) make any Bond payable in money other than that stated in the Bond;

(e) subordinate the Bonds to any other obligation of the Issuer;

(f) amend or modify the provisions of the Terms and Conditions on Taxation, the Events of Default or the waiver of default by the Bondholders;

(g) reduce the percentage of the Bondholders required to be obtained under the Trust Agreement for their consent to or approval of any supplemental agreement or any waiver provided for in the Trust Agreement, without the consent of all the Bondholders; or

(h) make any change or waiver of the conditions under paragraphs (a) to (g) inclusive.

It shall not be necessary to obtain the consent of the Bondholders under the foregoing paragraphs for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given pursuant to this section shall be conclusive and binding upon all Bondholders and upon all future holders and owners of the Bonds or of any Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Bonds.

Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

Venue

Any suit, action, or proceeding arising out of, or relating to, the Bonds or the Trust Agreement shall be brought in any competent court in the Cities of Makati, Mandaluyong and Pasig, to the exclusion of all other courts, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Issuer, Trustee and Bondholders expressly waiving other venue.

Waiver of Preference

The obligations created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any Debt or obligations of the Issuer. Accordingly, whatever priorities or preferences that the Bond Agreements may have or any Person deriving a right hereunder may have under Article 2244, paragraph 14(a) of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines shall be revoked if it be shown that any Debt of the Issuer has a priority or preference under the said provision.

RISK FACTORS

General Risk Warning

An investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Bonds. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition, and results of operations of the Company and cause the market price of the Bonds to decline. All or part of an investment in the Bonds could be lost. Investors deal in a range of investments each of which may carry a different level of risk. This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Bonds and the Company from the SEC. Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, including the audited financial statements of the Company and notes relating thereto included in this Prospectus, before making any investment decision relating to the Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to SMFB or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition and prospects of SMFB and prospective investors may lose all or part of their investment.

The means by which the Company plans to address the risks discussed herein are principally presented in the sections of this Prospectus entitled "Description of Business - Strengths of the Company," "Description of Business - Business Strategies" and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Offer and SMFB from the SEC and PDEx.

Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

Risk Factors

This Prospectus contains forward-looking statements that involve risks and uncertainties. SMFB adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of SMFB, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Offer. The business, financial condition and results of operations of the Company could be materially and adversely affected by any of these risk factors.

Risks Relating to Our Businesses and Operations

Our businesses and prospects may be adversely affected by changes in consumer preferences or purchasing power and we may not be successful in introducing new products into the market.

Our ability to successfully develop and launch new products, which is a key part of our strategy, as well as our ability to maintain or increase demand for existing products, depend on the acceptance of these products by consumers, as well as consumers' purchasing power. Consumer preferences may shift for a variety of reasons, including changes in international, national, regional and local economic conditions; culinary, demographic and social trends; leisure activity patterns or consumer lifestyle choices.

There can be no assurance that any new products introduced in the future will generate the estimated consumer interest, projected revenues or market share. If our marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, we may incur large expenses without the benefit of higher revenues and our businesses and prospects could be materially and adversely affected.

In addition, as we continue to take advantage of the "premiumization" trend, particularly in the Greater Manila and key cities nationwide, by strengthening the focus on our higher margin premium and upscale brands, our business and prospects become more closely related to, and affected by changes in consumer purchasing power and lifestyles.

Any decrease in consumers' purchasing power or disposable income levels could have a material adverse effect on our financial condition and results of operations.

Competition in our businesses and markets could cause us to lose market share or reduce our operating margins, which could adversely affect our results of operations and financial condition.

We operate in a highly competitive environment and face competition from domestic or local producers, which sells both their own brands and foreign brands they produce under license, and from foreign producers or imported products. Such competition could result in a loss of market share or reduce operating margins, which could adversely affect our results of operations and financial condition.

We believe that we have the highest market share across several of our product categories, however, there is no assurance that we will be able to maintain or grow our current market share. In the food and beverage industry, competitive factors generally include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. We also compete with other discretionary items, including other food and beverage products and other goods and services generally. While we continuously develop new and innovative products to meet our customers' demands and in order to maintain our customer base and market share, if our competitors are able to develop more innovative or better quality products or less expensive products of similar quality, we may not be able to maintain our competitive edge or market share.

In addition, consolidation among our competitors, the entry of new and larger competitors into the Philippine food and beverage market or actions by our competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of our products or cause our market share to decline.

Any failure to successfully compete with our competitors or maintain our customer base and market share could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our financial performance may be materially and adversely affected by disruptions in the supply of, or price fluctuations in, major raw materials.

Many of our products depend on raw materials, most of which are procured from third parties, including purchases of some critical raw materials from both within and outside of the Philippines. These raw materials are subject to price volatility caused by a number of factors including changes in global supply and demand, foreign exchange rate fluctuations, shipping and other transport-related factors, weather conditions, quality of crop and yield and trade and tariff policies, and government regulations and controls.

Movements in the supply of global crops may affect prices of raw materials, such as wheat, malted barley, adjuncts and molasses for the food and beverage businesses.

The Spirits Division may face disruptions in the supply of major raw materials. For example, the current global focus on bioethanol fuel has contributed, and is expected to continue to contribute, to higher prices for molasses, which is a major raw material to produce spirits, as traders can choose to sell their molasses to producers of bioethanol rather than of beverage alcohol, thereby causing higher demand and cost.

Water is critical in our beverage operations, and we may not be able to source sufficient quantities or may face increases in water costs in the future. We source our water requirements for our beverage businesses from deep wells and from water utility service providers. The Water Code and its implementing rules and regulations govern the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board. Restrictions on the use of deep well water could disrupt our operations and price increases for the use of deep well water or by water utility service providers could adversely affect our operating costs, which could adversely affect our business, financial condition, results of operations and prospects.

The Food Division may be affected by disruptions in the supply of major raw materials which include anhydrous milk fat, wheat and soybean meal supply due to weather conditions of source countries, outbreak of diseases or to geopolitical developments that may affect trade situations. Another raw material that may be affected is cassava, a substitute raw material in producing animal feeds. Adverse weather conditions and the relative price attractiveness of corn farming versus cassava at certain times may discourage local farmers to plant cassava and switch to planting corn. This may in turn result in the Food Division purchasing a greater quantity of higher cost raw materials which may affect the profit margin of the Food Division.

We may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies.

Although we actively monitor the availability and prices of raw materials, there is no assurance that raw materials will be supplied in adequate quantities or at the required quality to meet our needs, or that these raw materials will not be subject to significant price fluctuations in the future. Shortages in raw materials may also cause delay in the supply of products to customers. Even though we may, in certain limited instances, be able to shift to alternative raw materials to produce our products, there is no assurance that we will be able to reduce our reliance on these raw materials in the future. We may only have a limited ability to hedge against fluctuations in commodity prices and changes in foreign exchange rates and any hedging activities may not be as effective as planned. Moreover, the market prices of raw materials may increase significantly if there are material shortages due to, among others, competing usage or drastic changes in weather or natural disasters or shifts in demand from other countries such as China and India. Our ability to pass along higher costs through price increases to our consumers is also influenced by competitive conditions and pricing methodologies used in the various markets in which we compete. As such, there is no assurance that any increases in product costs will be passed on to consumers and any price increases that are passed along to consumers will not have a material adverse effect on our price competitiveness and may choose to purchase competing products or shift purchases to lower-priced or other value offerings. As a result, any significant changes or disruption in supply or material increase in the market price of such raw materials could have a material adverse effect on our business, financial condition and results of operations.

Our production may be subject to capacity bottlenecks that could prevent us from realizing full sales potential from the market.

We may face capacity bottlenecks particularly for segments with large consumer markets such as beer and the products produced by the Food Division, the supply for which is largely dependent on production facilities that are already operating at optimum capacities. Capacity bottlenecks could involve both demand generally outpacing the relevant businesses' existing capacity, as well as the risk of major production facilities suffering unexpected outages, maintenance, or other setbacks. Although we continuously seek to enhance the output and efficiency of our existing production facilities and/or increase our production capacity through adding more lines or building more facilities, we may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. We cannot assure prospective investors that we will not experience production difficulties in the future and we cannot assure that we will be able to increase the output and efficiency of our production facilities to respond to increased consumer demand in the future. If SMB is unable to increase the efficiency and manufacturing capabilities of its production facilities in line with increased customer demand in the future, this may adversely and materially affect its business and operations. Furthermore, we cannot assure prospective investors that we will be able to meet increasing demand for our products without having to incur significant additional capital expenditures in the future.

Demand for some of our products is price-sensitive, and sales volumes may fall following any increase in prices, which could negatively affect our financial revenues and results of operations.

The market for food and beverage such as beer and spirits, as well as certain segments of the food market in the Philippines, is price-sensitive. At the same time, demand for many of our products is closely linked to consumers' purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. While we endeavor to increase prices at reasonable levels, the increase in price could cause sales volumes to decline and may affect our ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect our revenues and results of operations.

Increases in applicable tax rates, in particular excise taxes applicable to alcoholic beverages, and changes in applicable taxes, incentives and taxation laws, may reduce demand for our products, reduce our margins or reduce both.

We are subject to various taxes, including VAT, excise taxes, duties and tariffs. An increase in prices due to additional taxes may affect demand for our products in the Philippines. In particular, increases in excise taxes on alcoholic beverages may reduce overall consumption of these products and reduce our margins, or both. Previous increases in excise tax rates have adversely affected sales volumes of our beverage business.

Increases in excise tax, changes in the applicable tax regime or other taxes and incentives to which we are subject, or the imposition of new taxes on our operations or products, including those which may result from ongoing tax reforms by the Government may, (i) if passed on to the consumers by way of upward price adjustments, reduce consumption of our products, (ii) if prices remain unchanged, reduce margins, or (iii) if additional taxes are not fully passed on the consumers, have both said effects. These may materially and adversely affect our business, financial condition and results of operations.

In the Philippines, excise tax represents a significant component of alcoholic beverage production costs. The Tax Code provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the BIR requires establishments subject to such taxes such as the Company to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per liter on all fermented liquors, except those affected by the "no downward classification clause", which was a change from the two-tier tax structure imposed in 2013. Several of SMB's products were affected by the "no downward reclassification" clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2019, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Tax Code and sets additional excise tax on alcoholic beverages. Once effective, the new excise tax rates for fermented liquor shall be ₱35.00 per liter effective January 1, 2020. The excise tax shall then increase to ₱37.00 per liter in 2021, ₱39.00 per liter in 2022, ₱41.00 per liter in 2023, and ₱43.00 per liter in 2024. Effective January 1, 2025, the excise tax rate shall then be increased by 6% every year thereafter.

For distilled spirits, an additional ad valorem tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the ad valorem tax, a specific tax at the following rates shall be collected: ₱42.00 per proof liter effective January 1, 2020, ₱47.00 per proof liter in 2021, ₱52.00 per proof liter in 2022, ₱59.00 per proof liter in 2023, and ₱66.00 per proof liter in 2024. The specific tax shall be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

Our third-party contractors may fail to perform their obligations, or we may be unable to find new contractors to meet increased consumer demand, which may affect our businesses and results of operations, including revenues and profitability, which could be materially and adversely affected.

We outsource part of our manufacturing, production and logistics operations to third party contractors. Our ability to bring products to the market could suffer if a significant number of our third-party contractors fail to manufacture or distribute products in a timely manner. While we only engage the services of reputable contractors, our third-party contractors may experience labor disruptions or otherwise encounter production difficulties which may affect the quantity and quality of our products. In addition, we may not successfully renew existing agreements or have contractual disputes with our third party contractors. There is no assurance that we will continue to find sufficient new third party contractors to meet increased customer demand in the future, which could materially and adversely affect our businesses and prospects. Furthermore, we operate in an industry that is subject to many regulatory regimes, including, but not limited to, labor, safety, health, environmental, and insolvency matters. Failure on the part of a significant number of third party contractors to comply with any of these regulatory regimes could materially and adversely affect our businesses and prospects.

Sales of our products may be adversely affected if our relationship with dealers and distributors deteriorate.

Our products are primarily sold through dealers and distributors. Although many of these dealers and distributors have been dealing with us for many years, and while we intend to continuously exert effort to provide them support, there is no assurance that these dealers and distributors will continue to purchase and distribute our products, or that these dealers and distributors can continue to effectively distribute our products without delays or interruptions. In addition, the financial instability of, contractual disputes with, or labor disruptions at our dealers and distributors could disrupt the distribution of our products and adversely affect our business.

Our business and prospects may be materially and adversely affected by increased imports of lower-priced products as import duties are decreased or eliminated.

We may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, including the ASEAN Trade in Goods Agreement, the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the ASEAN-Korea Comprehensive Economic Cooperation Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN People's Republic of China Comprehensive Economic Cooperation Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement, the Philippines-European Free Trade Association Free Trade Agreement, the ASEAN-India Comprehensive Economic Cooperation Agreement, the ASEAN-India Free Trade Area Agreement, the ASEAN Trade in Goods Agreement (ATIGA), the European Free Trade Association (EFTA), and the ASEAN-Hong Kong, China Free Trade Agreement each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, with the coming into force of ATIGA, the Philippines eliminated intra-ASEAN import duties on 99.56% of its tariff lines including poultry, meat of bovine animals, flour, sausage, prepared or preserved meat, cereals, bread, pastry, cakes, biscuits, fruit juices, coffee, tea or maté, sauces and preparations, ice cream, beer, certain spirits, liqueurs, and spirituous beverages.

We have already experienced the effects of increased competition as a result of the elimination of these import duties, and expect that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, and from other countries party to a Free Trade Agreement with the Philippines, such as China and Japan, could give rise to increased competition for our products.

Our Food Division faces competition from other countries. The Protein segment competes with the import of chicken leg quarters from U.S. and Brazil. Our flour milling business competes with imported flour sourced from Turkey, Vietnam, and Indonesia. The Prepared and Packaged Food segment faces challenges from imports of butter, corned beef, luncheon meat, cheese, milk and biscuits, partly due to a decrease of the tariffs imposed on specific products under the free trade agreements. If we are unable to compete effectively with lower-priced imports, our market share and sales may decrease, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Outbreak of diseases, food and beverage safety and foodborne illness concerns could adversely affect our financial condition and results of operations.

Our Protein segment is subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms we own or have contracted. The livestock and poultry industries in the Philippines have experienced outbreaks of disease in the past. In September 2019, the Philippine Department of Agriculture confirmed the outbreak of African Swine Fever across several regions in the Philippines and restrictions have been imposed by some LGUs on pig movements across central Luzon in the affected provinces of Rizal, Bulacan and Pampanga. As of the same period, none of the Company's farms have been affected by the outbreak. In addition, there were sporadic cases of Porcine Epidemic Diarrhea (PED) during the third quarter of 2016 and first quarter in 2017 when two of our farms were affected, the Newcastle disease outbreak in the first quarter of 2016 and the Avian Influenza (H5N6) during the third quarter of 2017. These incidents negatively affected revenue growth of the Protein segment for those periods.

In addition, any outbreak of a contagious disease in the Philippines, such as bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of a contagious disease could adversely affect consumer demand for our products, and our ability to adequately staff operations and distribution networks of our products, as well as the general level of economic activity in the Philippines. There can be no assurance that our policies and controls in our facilities to prevent the outbreak and recurrence of diseases, including the separation of hog breeding, nursery and growing operations, bird proofing to prevent the entry of migratory birds into our poultry facilities and strict visitor screening and sanitation procedures for entrance to any of our facilities, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting our livestock production in the Philippines or elsewhere will not occur. We cannot assure our prospective investors that any future outbreak of a contagious disease will not have a material adverse effect on our business, financial condition and results of operations.

Moreover, there can be no assurance that our internal controls and policies will be fully effective in preventing all food and beverage safety issues concerning the products we sell, including any occurrences of foodborne illnesses such as Salmonella, E. coli and Hepatitis A. Particularly for the Food Division, selling conditions in the trade, especially in wet markets, makes fresh food vulnerable to the risk of foodborne illness. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of food and beverage safety or a foodborne illness related to our products could negatively affect our sales. This risk exists even if it were later determined that the illness was wrongly attributed to our products. The occurrence of food and beverage safety or a foodborne illness incident, or negative publicity or public speculation about an incident, could have a material adverse effect on our business, financial condition and results of operations.

Product liability claims or other similar circumstances could harm the reputation of, and customer support for, our products and materially reduce the sales and profitability of our business.

Our success depends largely upon consumers' perception of the reliability and quality of our products. Any event or development that detracts from the perceived reliability or quality of our products could materially reduce demand. For example, a contamination of our Beer and NAB or Food Divisions' products by bacteria or other external agents, such as Listeria monocytogenes, Salmonella or E. coli, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. Improper storage and handling may result in spoilage, defects, recalls, or complaints that may be encountered by the Food Division for temperature-sensitive products. Product liability claims, whether or not they are successful, could adversely affect the reputation of our brands which may result in reduced sales and profitability of the affected brand or our brands in general. In particular, we have little, if any, control over handling procedures once our products have been dispatched for distribution and are, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against us, there is no assurance that any such product liability claims will not be filed against us in the future, and any such product liability claim, whether or not successful, could damage our reputation and our products, and could have a material adverse effect on our financial condition and results of operations.

Our reputation depends on the use of certain brand names, trademarks, and other intellectual property rights, including the "San Miguel" brand name and the infringement of these rights could adversely affect our competitive position.

We exclusively own licenses from SMC and its related companies, and/or otherwise use various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell our products in the Philippines, including, *San Miguel, Purefoods, Purefoods Tender Juicy, Magnolia, B-Meg, Monterey, Star, Dari Crème,* and *Ginebra San Miguel*. Protection of these brand names, trademarks, and intellectual property rights is important to maintaining our distinctive corporate and market identities. If third parties sell products that use counterfeit versions of our brands or otherwise look like our brands, consumers may confuse our products with products that are inferior. This could negatively impact our brand image and sales.

While we have been granted numerous trademark registrations covering our brands and products, and have filed, and expect to continue to file, trademark applications seeking to protect newly developed brands and products, there can be no assurance that third parties will not challenge, violate or attempt to infringe any existing or future trademarks issued to, or licensed by us. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent misappropriation of these rights or the use by others of our concepts, and it may be difficult for us to prevent others from copying elements of our concept. Any litigation to enforce our rights will likely be costly and may not be successful.

We are responsible for defending against all infringements on our brand names, related trademarks, and other intellectual property rights, and we vigilantly monitor products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of our brand names, related trademarks, and other intellectual property rights. We also retain the services of independent external counsels and trademark watch report providers to alert us of any such attempts and to enjoin third parties from the use of colorable imitations of our brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition. Although we believe that we have legal rights under existing and applicable laws to all our brand names, trademarks, and intellectual property rights, we may face claims of infringement that could interfere with our ability to market our products and promote our brands. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks in the future and may be liable for damages.

Any failure to protect our brand names, trademarks, and other intellectual property rights may significantly harm our competitive position and could materially and adversely affect our business, financial condition, results of operations and prospects, as well as our reputation.

Damage to our reputation, key brand names and the "San Miguel" brand, and negative publicity, could negatively impact our business.

We believe that the *San Miguel* brand and other key brands such as *Magnolia, Purefoods, Purefoods Tender Juicy, Monterey, Star, Dari Creme* and *Ginebra San Miguel* are positively perceived by consumers in the Philippines as a result of their long-standing presence in the Philippine market. We also believe these brand names lend our products an image of trust and quality. Although we rely significantly on the *San Miguel* brand name, we have little or no control over its use by other members of the San Miguel Group or any other third parties. Our brand image could be negatively affected by product quality or other reputational issues caused by these other users of the brands and trademarks of SMC. Any incident that erodes consumer affinity for our brands could significantly reduce their value and damage our business. Any decrease in the brand equity of the *San Miguel* brand name could have an adverse effect on our competitive position, sales and results of operations and could materially and adversely affect our reputation, business, financial condition, results of operations, and prospects.

In addition, we may be adversely affected by news reports or other negative publicity, regardless of their accuracy, regarding food and beverage quality issues, public health concerns, illness, safety, injury, customer complaints or litigation, health inspection results, food and beverage processing practices, employee relationships or government or industry findings concerning our operations or operations of third parties that we engage or contract with. The risks associated with such negative publicity cannot be completely eliminated or mitigated and may materially harm our results of operations and may result in damage to our brands. In addition, there has been marked increase in the use of social media platforms and similar devices, including blogs, social media sites and other forms of Internet-based communications that allow individuals' access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content to their subscribers and participants can post, often without filters or checking the accuracy of the content posted. Information concerning us may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction.

Our controlling shareholder may take actions that may conflict with our public shareholders' best interests.

SMC is our single largest shareholder which holds 88.76% of SMFB's common shares as of the date of this Prospectus.

SMC controls SMFB, including our management, policies and businesses, through its ability to control actions that require majority shareholder approval, or actions that require two-thirds of the total outstanding capital stock for actions specified under the Corporation Code, and through its representatives on our Board of Directors. The interests of SMC may differ from the interests of other shareholders. SMC is not obligated to provide us with financial support or to exercise its rights as a shareholder in SMFB's best interests or the best interests of SMFB's minority shareholders. In addition, SMC may engage in activities that conflict with such interests. If the interests of SMC conflict with the interests of our other shareholders, or if SMC chooses to cause SMFB to pursue strategic objectives that conflict with the interests of our other shareholders, those shareholders could be disadvantaged by the actions that SMC chooses to pursue. To the extent that there are conflicts of interest between SMC and SMFB or its other shareholders, there can be no assurance that SMC will not choose to pursue strategic objectives that may not be aligned with the interests of SMFB or its other shareholders.

In addition, SMC has ownership interests in a number of companies in the Philippines, including companies that are involved in businesses related to our businesses, or which have entered into, or may enter into, business transactions with us, such as transactions with the Packaging Group for packaging materials. We also benefit from our ongoing relationship with SMC and some of its subsidiaries and affiliates through their global reach and relationships. There can be no assurance that SMC or its officers or directors will make corporate opportunities available to us or will continue to allow us to have access to such benefits in the future. For further information, see "*Related Party Transactions*."

The growth in the number and scale of supermarkets as well as a general consolidation of major sales and distribution channels in the Philippines may materially and adversely affect our financial condition and results of operations.

The Philippine retail market has historically been highly fragmented and dominated by numerous "*sari-sari*" stores (traditional neighborhood stores selling assorted grocery items and general merchandise, also known as "***mom* and *pop* stores**") across the country, groceries and traditional wet markets. Traditional wet markets remain a major source of food products for many Philippine consumers. *Mom* and *pop* stores service limited geographical areas and purchase relatively small quantities of our products from distributors, dealers and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines which may result in the decline in the number of *mom* and *pop* stores which is traditionally more patronized by the larger lower-income bracket consumers. There is a risk that our businesses may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. There is no assurance that supermarkets or one of these larger customers will not exert downward pressure on wholesale prices of our products, which could have a material adverse effect on our financial condition and results of operations.

We rely on third parties for transportation of our supplies and on dealer and distributors for the distribution of our finished products throughout the Philippines, and any disruption in their delivery and distribution or an increase in costs could adversely affect our financial condition and results of operations.

Our businesses require significant movement of raw materials, packaging materials and finished products by land and sea transportation. We engage third party contractors for the transportation and delivery of our raw materials, packaging materials, and finished products, while our dealers and distributors purchase our products for resale and distribution to retailers and customers. Such third-party contractors as well as dealers and distributors operate beyond our direct control.

In addition, distribution and transportation of our raw materials, packaging materials, and finished products could be adversely affected by extraordinary events, including road construction or closures of primary access routes, port congestion, flood, typhoon or other severe weather conditions, directives from government agencies or power interruptions. Any interruptions in the delivery or poor handling by third-party contractors of raw materials, packaging materials, or finished products, or in the distribution by dealers and distributors of finished products may affect our sales, and damage our reputation.

Additionally, although the costs for inbound freight are mainly included in the price of supplies, this is not always the case for outbound freights. The costs for such outbound freights could increase, which could adversely affect our ability to supply customers at current prices and meet customers' demand for our products. As a result, we could experience a significant increase in operating costs, which could have a material adverse effect on our business, financial condition and results of operation.

We are exposed to our customer credit risk, and payment defaults by our customers could have a material adverse effect on our financial condition, results of operations and liquidity.

We are exposed to the credit risk of our customers, and defaults on material payments owed to us by customers could significantly reduce our operating cash flows and liquidity, as well as have a material adverse effect on our financial condition and results of operations. Some of our customers could also experience cash flow difficulties or become subject to liquidation that could in turn lead to us being unable to collect payments or experiencing long delays in collection of payments, if at all. Trade receivables are non-interest bearing and are generally on seven to 60-day terms. There is no assurance that our exposure to the risk of delayed payments from our customers or defaults in payment by our customers will not increase, or that we will not experience losses or cash flow constraints as a result. If any of these events were to occur, these could have a material adverse effect on our financial condition, results of operations and liquidity.

Labor disputes, including failure to maintain satisfactory labor relations, or changes in employment laws may disrupt our operations and could adversely affect our business, prospects, financial condition and results of operations.

We are subject to a variety of national and local laws and regulations in the Philippines and in those jurisdictions outside the Philippines where we operate, including those relating to labor. As of September 30, 2019, 28% of our employees are members of labor unions from our Philippines, China, Vietnam and Indonesia operations. Our labor unions comprise rank and file employees. Under the Labor Code, a labor union serves as the certified collective bargaining representative of the relevant bargaining unit (i.e., rank and file; supervisors unit). Accordingly, we negotiate our collective bargaining agreements with the newly elected collective bargaining representative every five years. The economic provisions of existing collective bargaining agreements are renegotiated not later than three years from the execution of such agreement. See "*Business—Human Resources—Labor Agreements*". There can be no assurance that we will be able to reach an agreement when negotiating our collective bargaining agreements nor that any agreement will be ratified by the union and that we will not experience a labor disruption. We have in the past, and may in the future, be required to defend against labor claims. There can be no assurance that we will not experience labor unrest, activism, and difficulty negotiating collective bargaining agreements or disputes or actions in the future, some of which may be significant and could adversely affect our business, prospects, financial condition and results of operations.

We generally consider our labor relations to be good and harmonious. However, there can be no assurance that we will not experience future disruptions to our operations due to labor disputes. In addition, any changes in labor laws and regulations could result in our having to incur substantial additional costs to comply with increased minimum wage and other labor laws. Any of these events may materially and adversely affect our business, financial condition and results of operations.

Various labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to independent third-party contractors, could materially affect our business, financial condition, operating results or cash flow. Outsourcing carries with it certain inherent risks including potential actions from employees of our third-party service providers who may claim an employee-employer relationship with us and the risk that third party contracting arrangements in place are found by the DOLE to be "labor-only contracting", which could have a significant impact on our labor costs. In addition, a labor dispute involving a substantial number or all of our employees may harm our reputation, disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs. See "*Regulatory and Environmental Matters*."

We are also exposed to litigation risk from employees of our various third party contractors, who may implead the Company as party to their labor cases and labor disputes against these third party contractors.

We are subject to health, food and beverage safety and environmental laws and regulations.

Our businesses are subject to a variety of national and local laws, rules and regulations that impose limitations, prohibitions and standards in the Philippines and in those jurisdictions outside the Philippines where we operate with respect to health, food and beverage safety, management of solid waste, water and air quality, as well as the use, discharge, emission, treatment, release, disposal and management of, regulated materials and hazardous substances. These laws and regulations require us to obtain and maintain several approvals, licenses and permits from various entities such as the Food and Drug Administration ("**FDA**"), the Department of Trade and Industry ("**DTI**") and the Department of Environment and Natural Resources ("**DENR**"), among others, for our operations. Additionally, we may need to apply for more approvals, licenses and permits and renew such approvals, licenses and permits that may expire from time to time.

Health, food and beverage safety and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new health, food and beverage safety and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations. In addition, stringent and varied requirements of local regulators with respect to local licenses and permits could delay or prevent development of facilities and operations in certain locations. For further information, see "*Business—Quality Control, Health, Safety and Environmental Matters*" and "*Regulatory and Environmental Matters*."

There can be no assurance that future laws, regulations and/or standards will not have a material adverse effect on us. In particular, changes: (i) to health and food and beverage safety laws and regulations could increase costs and may also have a material adverse effect on sales if, as a result, the public attitude towards our products is affected; (ii) to health and safety laws and regulations could increase costs (including costs in relation to complying with such laws and regulations) and it may not always be possible for us to pass such costs on to our customers; and (iii) in laws and regulations relating to manufacturing and bottling requirements, packaging and labelling requirements, licensing requirements, ingredients, advertising restrictions and standards could adversely affect our cash flow, results of operations and financial position. In addition, there is no assurance that we will not be subject to new licensing requirements in the future, or that we would be able to obtain and maintain such approvals, licenses or permits in a timely manner, or at all, or that we will not become subject to any regulatory action on account of not having obtained or renewed such approvals, licenses and permits.

Furthermore, if the measures we implement to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose us to potential liabilities. Potential liabilities for such non-compliance with the legal requirements or violations of prescribed standards and limits under these laws include administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against us, as well as orders that could limit or affect our operations such as orders for the suspension and/or revocation of permits or licenses or suspension and/or closure of operations.

There can be no assurance that we will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Environmental compliance and remediation costs at sites on which our facilities are located and related litigation and other proceedings could materially and adversely affect our business, financial condition and results of operations.

We depend on key members of our management team and technical personnel.

We have relied and will continue to rely significantly on the continued individual and collective contributions of key members of our management team. The key members of our management team have been instrumental in setting our strategic direction, operating our businesses, identifying, recruiting and training personnel, identifying major expansion opportunities and arranging necessary financing. In addition, our key technical personnel are vital to the manufacture of our products. For example, the Beer and NAB Division has more than 40 brewmasters, a position critical to its manufacture of beer. Some members of our management are leaders or members of certain key industry associations in the Philippines, and we believe that we benefit from those relationships. We believe that these individuals cannot be easily replaced with executives of equal experience and capabilities. There can be no assurance that we will be able to retain these executives and technical personnel. If a significant number of the key members of our management team or technical personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing business, we may not be able to timely identify a suitable replacement, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our business operations could be disrupted if our information technology systems fail to perform adequately.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, affecting our business and results of operations to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-attacks and viruses. Any such damage or interruption could have a material adverse effect on our business.

Our current insurance coverage may not be adequate, insurance premiums for such coverage may increase and we may not be able to obtain insurance at acceptable rates or at all.

Our current insurance may not provide adequate levels of coverage and we may not be fully insured against, and insurance may not be available for, losses caused by accidents, natural disasters, disease outbreaks, breakdown of major facilities or other events that could affect the facilities and processes used by our businesses. For example, we do not carry business interruption insurance nor insurance for our live animals for any of our domestic businesses. Any losses caused by events against which we are not fully insured could result in a decline in production, adverse publicity, and significant expenditure of resources to address such losses, and would as a result, have a material adverse effect on our business, financial condition and results of operations. Any accident at our operations and facilities could result in significant losses. We could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses, both in terms of time and money. There is no assurance that there will be no work-related or other accidents in the future. Furthermore, there is no assurance that amicable settlements will be secured in the event of accidents or that accidents will not result in litigation or regulatory action against us. In addition, our insurance premiums in the future may increase and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Such events or any substantial inadequacy of, or inability to obtain insurance coverage could materially and adversely affect our financial condition and results of operations. See "*Business—Insurance*."

Disagreements that may develop among partners may result in disruptions to these businesses.

The businesses of some of our subsidiaries are conducted with other partners, including Kirin Holdings Company, Limited ("**Kirin**") for beer, Hormel Netherlands B.V. for processed meats, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte Ltd., for coffee, PT Hero Intiputra for Indonesia processed meats business, and Thai Life Group of Companies for distilled spirits. Cooperation among the partners on business decisions is crucial to the sound operation and financial success of these subsidiaries. Although we believe that we maintain good relationships with our partners, there can be no assurance that these relationships will be sustained in the future or that problems will not develop. For example, our partners may be unable or unwilling to fulfill their obligations, take actions contrary to our policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these subsidiaries could be severely disrupted, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to generate sufficient cash flow, raise capital or obtain financing on acceptable terms, which could adversely affect the execution of future business activities.

Our future business activities are expected to be funded through a combination of internally-generated funds and external fund-raising activities, including debt and equity financing. Our continued access to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers, (ii) our compliance with existing debt covenants, (iii) our ability, together with our affiliates and subsidiaries, to service new debt, and (iv) perceptions in the capital markets regarding SMFB and the industries in which we operate and other factors, some of which may be outside of our control, including general conditions in the debt and equity capital markets, political instability, economic downturn, social unrest, changes in the Philippine regulatory environment or the bankruptcy of an unrelated company operating in one or more of the same industries as us, any of which, could increase our cost of borrowing or other financing or restrict our ability to obtain debt or equity financing. In addition, disruptions in global capital and credit markets may occur, continue indefinitely or intensify, and such disruptions could adversely affect our access to financing. There can be no assurance that we will be able to arrange our required financing on acceptable terms, if at all. Any inability to obtain financing from banks and other financial institutions or from capital markets would adversely affect our ability to execute our future business activities as well as our financial condition and prospects.

Certain products in our food businesses are subject to price monitoring by the Government.

Basic necessities such as bread, fresh pork, beef and poultry meats, fresh eggs, milk, coffee and cooking oil, and prime commodities such as flour, processed meats, other dairy products and swine and poultry feeds may be made subject to price monitoring by the Government. Under the Philippine Republic Act No. 7581 (the "**Price Act**"), as amended by Republic Act No. 10623, the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. In addition, the DTI issues a "Suggested Retail Price" list for certain prime commodities, which includes some of the Food Division's products. The DTI should be informed of any price movement in these products prior to implementing the same.

The Price Act imposes an automatic price control on the prices of basic commodities in areas declared as disaster areas, under emergency or martial law or in a state or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days, except for price control on basic necessities that are wholly imported and deregulated. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are also given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. Any resulting price control may have a material adverse effect on our business, financial condition and results of operations.

In addition, traditional wet markets remain a major distribution channels for food products in the Philippines. The Government may at times decide to protect consumers from rising prices and this may constrain our ability to pass on higher product costs through price increases to wet market retailers who sell our poultry, fresh meats and value-added meat products. For example, during times of calamities, the government may impose price control on basic commodities such as poultry in the affected areas.

We engage in derivative and hedging transactions.

From time to time, we enter into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in marked-to-market losses, which are, in turn, expected to be offset by lower raw material costs. As our hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under futures contracts, our net income will be lower than it would be had we not engaged in such transactions. Consequently, our financial performance could be adversely affected during periods in which prices of raw materials are volatile.

We are party to a number of related party transactions which may result in potential conflicts of interest and the BIR may implement adjustments that may have an adverse effect on our business, financial conditions and operations.

In the ordinary course of our business, we have transactions with related parties. For example, we purchase from and sell products and materials to, and engage the services of, our subsidiaries and affiliates, and lease properties from our affiliates. Our related party transactions are described in greater detail under "*Related Party Transactions*" and the notes to our financial statements appearing elsewhere in this Prospectus. Such interdependence may mean that any material adverse changes in the operations or financial condition of related parties could adversely affect the results of our operations. We expect that we will continue to enter into transactions with related parties. These transactions may involve potential conflicts of interest which could be detrimental to us or our shareholders.

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses upon determination of the necessity to prevent evasion of taxes or to clearly reflect the income of any such business. On January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the "**Transfer Pricing Regulations**") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines in addressing Base Erosion and Profit Shifting (BEPS). The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR pursuant to the BIR Commissioner's authority to distribute, apportion or allocate gross income or deductions between or among two or more businesses owned or controlled directly or indirectly by the same interests (if such is necessary in order to clearly reflect the income of such business), may make the necessary transfer pricing adjustments to the taxable profits of the related parties to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions. While we believe that we enter into transactions with related parties on an arm's length basis and documented pursuant to the Transfer Pricing Regulations, there can be no assurance that the BIR will confirm these transactions as arm's length on the basis of the Transfer Pricing Regulations and there can be no assurance that any transfer pricing adjustments by the BIR will not have a material adverse effect on our business, financial condition or results of operations.

We are substantially dependent on our relationship with SMC and the San Miguel Group.

We remain dependent on our relationship with SMC and the San Miguel Group in a number of critical areas, including with respect to its brands and trademarks, packaging requirements, some of our brand marketing activities, many of our critical corporate functions including strategic planning, and the land on which certain of our production facilities are located. If conflicts were to arise in our relationship with SMC or the San Miguel Group or if SMC or the relevant member(s) of the San Miguel Group were to fail to provide the services or requirements they have contracted to provide to us, it is likely that we would not be able to easily replace SMC or the relevant member(s) of the San Miguel Group as a provider of such services or requirements. Any such development could cause a material disruption in our business, negatively impacting our performance and growth prospects.

Our business and sales are affected by seasonality.

Our sales are affected by seasonality of customer purchase patterns. In the Philippines, food and alcoholic beverages, including those we produce, generally experience increased sales during the Christmas season. In addition, alcoholic beverages experience increased sales in the summer season, which typically slow down in the third quarter as a result of rainy weather. As a result, performance for any one quarter are not necessarily indicative of what is to be expected for any other quarter or for any year and our financial condition and results of operations may fluctuate significantly from quarter to quarter.

We may not be successful in implementing our expansion strategy, including plans to increase our sales volume, and expand our distribution network, and international operations.

We intend to increase our sales volume through, among others, the introduction of new products and entry into new categories to broaden our product offering, expansion of our distribution network, and possible acquisitions of or joint ventures with other food and beverage businesses in the Philippines and in other countries. Our expansion strategy will allow us to expand production and generate additional value for SMFB. Our expansion activities may be financed by a combination of additional borrowings and equity. The implementation of our expansion strategy may face uncertainties and risks and there can be no assurance that we will be successful in implementing these initiatives or the implementation of any growth plans would result in an increase in income. There is also no assurance that acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into our operations or may result in possible contingent liabilities or other financial or legal exposure which were not sufficiently quantified during the due diligence prior to the acquisition, joint venture or other investment. As a result, these may have a material adverse effect on our liquidity, financial condition or results of operations.

Our international and export operations are subject to macroeconomic, social, and political developments and conditions in the countries where we operate and export our products to.

We export our products and maintain international operations in certain countries outside of the Philippines, with plans for further international expansion. Expansion in international markets may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, and there is no guarantee that our existing business and export operations as well as expansion plans will be successful in those countries. Our business, financial condition, prospects and results of operations could be adversely affected if we are not successful in the international markets in which we operate or export our products to if these international markets are affected by changes in political, economic and other factors, over which we have no control.

We are currently involved in certain legal proceedings and may be involved in additional legal or regulatory proceedings and commercial or contractual disputes from time to time, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are currently involved in certain legal proceedings and may be involved in additional legal or regulatory proceedings and commercial or contractual disputes from time to time or in the ordinary course of our business. Any legal or regulatory proceedings and disputes or adverse adjudications in proceedings may have a material adverse effect on our business, financial condition, results or operations and prospects.

Risks Relating to the Philippines

Our businesses, assets and sales are concentrated in the Philippines, and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on our business, financial condition, results of operations and prospects.

As our businesses, assets and sales are concentrated in the Philippines, historically, our results of operations, financial condition and prospects are subject, to a significant degree, to the general state of the Philippine economy and the overall levels of business activity in the Philippines, and we expect that this will continue to be the case in the future.

The Philippines has experienced periods of slow or negative growth, inflation, significant depreciation of the Philippine peso, and the imposition of exchange controls. Year-to-date average inflation is 2.8% in 2019, which is within the Government's announced target range of 3.0% ± 1.0% point for the year. The BSP expects that inflation for 2019 and 2020 would be lower compared to 2018. Results of the BSP's survey of private sector economists in September 2019 showed lower mean inflation forecasts for 2019 and 2020 relative to the results in June 2019. In particular, the mean inflation forecast for 2019 decreased to 2.7% from 2.9% in the June 2019 survey. Similarly, the mean inflation forecast for 2020 declined to 3.1% from 3.2% during the same review period. Meanwhile, the mean inflation forecast for 2021 was steady at 3.1%.

We cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of Philippine consumers. Demand for many of our products is tied closely to domestic consumer purchasing power and disposable income levels. For example, unfavorable economic developments may induce consumers of our food and beverage products to purchase economy brands, and lower-priced competing products and substitutes, which may result in lower sales and profit margins. In addition, as the businesses expand their product and brand portfolios in higher-priced premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of SMFB. In addition, given the increase in interest rates by the Monetary Board to temper buildup in inflation expectations, we may see a rise in our borrowing and financing cost.

The Philippine economy and businesses operating in the Philippines have been influenced, in varying degrees, by economic and market conditions in the global economy. Moreover, uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Philippine governmental policies will continue to be conducive to sustaining economic growth. Any downturn in the Philippine economy may negatively affect consumer sentiment and general business conditions in the Philippines which may lead to a reduction in demand for our products and materially reduce our revenues, profitability and cash flows.

The Philippine economy and business environment may be disrupted by political or social instability and may have a material adverse effect on our business.

The Philippines has, from time to time, experienced severe political and social instability, including acts of political violence. In the past decade, there has been political instability in the Philippines, including extrajudicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Government are currently under investigation or have been indicted for graft, corruption, plunder, extortion, bribery, or usurpation of authority.

There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. There can be no assurance that the current administration will continue to implement social and economic policies that promote a favorable and stable macroeconomic and business environment. Policy instabilities or fundamental change of policy directions, including those with respect to Philippine foreign policy,. The President's unorthodox and radical methods may also raise risks of social and political unrest may lead to an increase in political or social uncertainty and the loss of investor confidence in the Philippines. Any potential instability could have an adverse effect on the Philippine economy, which may impact our business, prospects, financial condition and results of operations.

Acts of terrorism in the Philippines could destabilize the country and could have a material adverse effect on our business, prospects, financial condition and results of operations.

The Philippines has been subject to a number of terrorist attacks for the last two decades, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts.

China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS).

In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally, including spending in the foodservice industry. This, in turn, could materially and adversely affect our financial condition and results of operations, and our ability to implement our business strategy and expansion plans.

The occurrence of natural disasters or other catastrophes, severe weather conditions, may materially adversely affect the Philippine economy and disrupt our operations.

Our facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. In the past, these events have affected our operating results. For example, the Japanese government banned the entry of any Philippine poultry products after the Avian Influenza outbreak last August 2017 and as a result, the Protein segment's customers in Japan cancelled their orders. As of June 2018, the ban is still enforced. In April 2017, the Food Division suspended production in the flour mills located in Batangas for two days after a series of earthquakes hit the area to assess the extent of damage and structural integrity of the building. There is no assurance that our insurance coverage for these risks will adequately compensate us for all damages and economic losses resulting from natural catastrophes. Our business, financial condition and results of operations may be materially and adversely affected by any disruption of operations at our facilities or our suppliers' facilities, including due to any of the events mentioned above.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Company.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents in the Philippines, including SMFB. As of December 31, 2019, the Philippines' long-term foreign-currency denominated debt was rated Baa2 by Moody's, BBB+ S&P Global Ratings, and BBB by Fitch. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including SMFB, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Corporate governance, disclosure and financial reporting standards in the Philippines may differ from those in other countries.

There may be less publicly available information about Philippine public companies, including SMFB, than is regularly made available by public companies in other countries. In addition, although we comply with the requirements of the SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. The SEC considers as best practice for public companies such as SMFB, to have at least three independent directors, or such number as to constitute one-third of the board whichever is higher. While SMFB has adopted the recommended best practices of the SEC and is in compliance with Philippine laws, rules and regulations, a greater number of independent directors may be required in other jurisdictions.

Investors may face difficulties enforcing judgments against us.

We are organized under the laws of the Republic or the Philippines and a substantial portion of our assets are located in the Philippines. It may be difficult for investors to enforce judgments obtained outside of the Philippines against us. In addition, all of our directors and officers are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law, and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

If foreign exchange controls were to be imposed in the Philippines, our ability to purchase raw materials or to meet our foreign currency payment obligations could be severely constrained.

The Philippines currently does not have any foreign exchange controls in effect and Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the BSP, with the approval of the President of the Philippines, in the imminence of or during a foreign exchange crisis or in times of national emergency, has the statutory authority to: (i) suspend temporarily or restrict sales of foreign exchange, (ii) require licensing of foreign exchange transactions, or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Philippine peso into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

We purchase certain key inputs from abroad and require foreign currency to make these purchases. There can be no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail our ability to obtain raw materials from abroad or to meet our foreign currency payment obligations, which could materially and adversely affect our financial condition and results of operations.

Risks Related to the Bond Offering

The Bonds may not be a suitable investment for all investors.

Each potential investor of the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate, Issuer's credit risk, and other factors that may affect its investment and its ability to bear the applicable risks.

An active or liquid trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors, which may affect liquidity. Although the Bonds are intended to be listed on PDEx as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds will develop and, if such a market were to develop the Joint Issue Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Bonds is highly dependent on the Bondholders.

The Issuer may be unable to redeem the Bonds.

At maturity, the Issuer will be required to redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered Bonds would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Issuer.

The Issuer has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

Holders of the Bonds may not be able to reinvest at a similar return on investment.

Prior to the relevant maturity dates of the Bonds, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant Optional Redemption Dates (see "*Description of the Bonds*"). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

The Bondholder may face possible gain or loss if the Bonds are sold at the secondary market.

As with all fixed income securities, the Bonds' market values move (either up or down) depending on the change in interest rates. The Bonds when sold in the secondary market are worth more if interest rates decrease since the Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Bonds are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Bonds.

The Bonds may not be able to retain its credit rating.

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

The Bonds have no preference under Article 2244(14) of the Civil Code.

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or Bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds as may be practicable.

Risks Related to Statements Made in this Prospectus

Certain statistics in this Prospectus relating to the Philippines, the industries and markets in which the business of the Company operates, including statistics relating to market size and market share, are derived from various government and private publications, including those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

USE OF PROCEEDS

SMFB expects to raise ₱15,000,000,000.00 as gross proceeds from the Offer. The Company estimates that the net proceeds from the Offer after deducting expenses payable by the Company, will be approximately ₱14,801,459,375.00, estimated as follows:

Particulars	Total (₱)
Estimated proceeds from the Base Offer……………………………	**15,000,000,000.00**
Less: Estimated fees, commissions and expenses	
Gross Underwriting Fees ……………………………………………	72,225,000.00
Documentary Stamp Taxes to be paid by the Company..............	112,500,000.00
SEC Registration fee ………………………………………………	4,312,500.00
SEC Legal Research Fee……………………………………………	43,125.00
SEC Publication Fee…………………………………………………	100,000.00
PDEx Listing Application Fee ……………………………………	200,000.00
PDEx Listing and Maintenance Fee…………………………………………………	300,000.00
Legal and other professional fees………………………………	4,500,000.00
Rating Fee……………………………………………………………	3,640,000.00
Trustee Fees…………………………………………………………	120,000.00
Paying Agency and Registry Fees…………………………………	100,000.00
Other expenses………………………………………………………	500,000.00
Total estimated fees, commissions and expenses ……………	**198,540,625.00**
Estimated net proceeds………………………………………………	**₱14,801,459,375.00**

Aside from the foregoing one-time costs, SMFB expects the following annual expenses related to the Bonds:

1. The Issuer will be charged by the PDEx for the first annual maintenance fee upon approval of the listing and thereafter, the Issuer will pay PDEx an annual maintenance listing fee amounting to ₱300,000.00 per annum;

2. The Issuer will pay an annual retainer fee to the Trustee amounting to ₱120,000.00 per annum;

3. After the Issue Date, a Paying Agency fee amounting to approximately ₱150,000.00 is payable every Interest Payment Date. The Registrar and Paying Agent will charge a monthly maintenance fee based on the face value of the Bonds and number of Bondholders; and

4. The Issuer will pay an annual monitoring fee of ₱500,000.00 to PhilRatings.

The net proceeds from the Offer shall be used to fund the redemption of the outstanding 15,000,000 Series 2 Perpetual Preferred Shares of SMFB to be redeemed on March 12, 2020 at a redemption price of ₱1,000.00 per share.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

Except for the underwriting fees, issue management fees and expenses related to the Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Lead Underwriter and Bookrunners. Please see section on *"Plan of Distribution"*.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event that there is any change in the Company's development plan, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds for future investments or other uses, and/or hold such funds in investments, whichever is better for the Company's and its shareholders' interest taken as a whole. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC and the stockholders in writing at least 30 days before such deviation, adjustment or reallocation is implemented.

MARKET PRICE, DIVIDENDS AND DISTRIBUTIONS, AND RELATED STOCKHOLDER MATTERS

Market Information

The Company's common and preferred shares are principally traded at the PSE. As of December 27, 2019, the closing price of the Company's common shares was ₱85.00. As of December 27, 2019, the closing price of the Outstanding Series 2 Perpetual Preferred Shares was ₱997.00.

The high and low prices of the common shares for each quarter of the last two fiscal years are indicated in the table below:

	2019		2018		2017	
(in ₱)	**Highest Close**	**Lowest Close**	**Highest Close**	**Lowest Close**	**Highest Close**	**Lowest Close**
1st Quarter	112.80	80.50	660.00*	510.00*	288.00	225.00
2nd Quarter	118.20	102.50	71.90	57.75	321.00	287.20
3rd Quarter	107.00	88.80	104.00	60.00	317.80	300.60
4th Quarter	93.95	85.00	100.50	79.50	640.00	306.00

* Prices quoted before the 10 for 1 stock split, which took effect on April 5, 2018.

The high and low prices of the Series 2 Perpetual Preferred Shares for each quarter of the last two fiscal years are indicated in the table below:

	2019		2018		2017	
(in ₱)	**Highest Close**	**Lowest Close**	**Highest Close**	**Lowest Close**	**Highest Close**	**Lowest Close**
1st Quarter	997.00	962.00	1,009.00	957.00	1,037.00	1,010.00
2nd Quarter	985.00	929.50	1,009.00	920.00	1,025.00	1,008.00
3rd Quarter	1,030.00	960.00	1,000.00	975.00	1,025.00	1,010.00
4th Quarter	1,000.00	982.00	1,000.00	968.50	1,020.00	1,000.00

Dividends and Dividend Policy

Dividend History

Set out below is our dividend history in the last two fiscal years for each of our classes of shares.

Common Shares

Year	Per Share Type	Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.50	2 February 2017	17 February 2017	1 March 2017
2017	Cash	1.50	9 May 2017	24 May 2017	8 June 2017
2017	Cash	1.50	9 August 2017	24 August 2017	7 September 2017
2017	Cash	1.50	9 November 2017	28 November 2017	8 December 2017
2018	Cash	2.00	1 February 2018	19 February 2018	1 March 2018
2018	Cash	0.20	9 May 2018	24 May 2018	8 June 2018
2018	Cash	0.40	8 August 2018	23 August 2018	6 September 2018
2018	Cash	0.40	8 October 2018	22 October 2018	31 October 2018
2019	Cash	0.40	6 February 2019	20 February 2019	6 March 2019
2019	Cash	0.40	8 May 2019	23 May 2019	7 June 2019
2019	Cash	0.40	7 August 2019	22 August 2019	5 September 2019
2019	Cash	0.40	6 November 2019	21 November 2019	5 December 2019

** On March 23, 2018, the SEC approved an amendment to our articles of incorporation involving a stock split, reducing the par value of our common shares from ₱10.00 per common share to ₱1.00 per common share. See "Business – Corporate Structure and SMFB Consolidation."*

Series 2 Preferred Shares

Year	Per Share Type	Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	14.14225	2 February 2017	17 February 2017	13 March 2017
2017	Cash	14.14225	9 May 2017	24 May 2017	13 June 2017
2017	Cash	14.14225	9 August 2017	24 August 2017	12 September 2017
2017	Cash	14.14225	9 November 2017	28 November 2017	12 December 2017
2018	Cash	14.14225	1 February 2018	19 February 2018	12 March 2018
2018	Cash	14.14225	9 May 2018	24 May 2018	13 June 2018
2018	Cash	14.14225	8 August 2018	23 August 2018	12 September 2018
2018	Cash	14.14225	13 November 2018	27 November 2018	12 December 2018
2019	Cash	14.14225	6 February 2019	20 February 2019	12 March 2019
2019	Cash	14.14225	8 May 2019	23 May 2019	13 June 2019
2019	Cash	14.14225	7 August 2019	22 August 2019	12 September 2019
2019	Cash	14.14225	6 November 2019	21 November 2019	12 December 2019

Dividend Policy

Since August 8, 2018, SMFB's dividend policy 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. We expect 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 of Directors. 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.

Holders of the Series 2 Preferred Shares are entitled to dividends at the fixed rate of 5.6569% calculated by reference to the Offer Price of ₱1,000.00 per share rate determined by the Board of Directors, payable once for every dividend period on such date set by the Board at the time of declaration of dividends in accordance with the terms of the Series 2 Preferred Shares. Dividends on the Series 2 Preferred Shares are cumulative. In addition, SMFB may not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking junior to the Series 2 Preferred Shares (including the Shares) or contribute any moneys to a sinking fund for the redemption of any securities ranking junior to the Series 2 Preferred Shares (including the Shares) if: (a) any dividends due with respect to any of the Series 2 Preferred Shares then outstanding for any period are not declared and paid in full when due or (b) any other amounts payable under the Series 2 Preferred Shares are not paid in full when due for any reason.

The Board of Directors may modify our dividend policy or declare special dividends, depending upon our capital expenditure plans and/or any terms of financing facilities entered into to fund our current and future operations and projects. SMFB's ability to pay dividends primarily depends on the dividends it receives from subsidiaries, and we intend to maintain the dividend policies of our subsidiaries. We cannot assure you that we will pay any dividends in the future.

The following are the dividend policies of its subsidiaries as provided in their respective by-laws or as approved by their respective Board of Directors:

San Miguel Brewery Inc.

The cash dividend policy of SMB entitles the holders of its common shares to receive annual cash dividends equivalent to 100% of the prior year's recurring net income, which is net income calculated without respect to extraordinary events that are not expected to recur, based on the recommendation of the board of directors. Such recommendation will take into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others, and subject to the applicable provisions of the Corporation Code.

As of the date of this Prospectus, the articles of incorporation of SMB does not provide for preferred shares. The cash dividend policy is subject to review and may be changed by SMB's board of directors at any time.

Ginebra San Miguel Inc.

Subject to the relevant provisions of applicable laws and regulations, holders of common shares shall be entitled to receive annual cash dividends at such amounts up to 50% of the prior year's recurring net income starting 2019, as may be determined by the board. "Recurring net income" shall mean net income calculated without respect to extraordinary events that are not expected to recur. Any dividend declaration and distribution may be made over the four quarters of the year.

In considering dividend declarations, the board shall, in the exercise of its discretion and authority, take into consideration dividend payments on the preferred shares, debt covenant and restrictions, debt servicing requirements, implementation of business plans, operating expenses, budgets, appropriate reserves and working capital, major capital expenditure requirements, and funding of new investments.

This policy may be amended or modified by GSMI's board of directors at any time.

Holders of the preferred shares are entitled to receive, to the fullest extent allowable under the law, dividends at the rate of ₱1.50 per annum, per preferred share, subject to certain adjustments. It shall be paid in priority to any dividend or distribution in favor of holders of common shares. Dividends on the preferred shares shall be fully cumulative.

San Miguel Foods, Inc.

The board of directors of SMFI has discretion to declare out of the surplus profits dividends to the outstanding subscribed capital stock in such amounts and upon such dates as the board may prescribe, subject to the provisions of law.

The Purefoods-Hormel Company, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings of the corporation which shall be payable in cash, property, or stock, to all stockholders on the basis of outstanding stock held by them, as often and at such times as the board of directors of Purefoods-Hormel may determine, in accordance with law. The stockholders are empowered to take necessary or appropriate action to ensure that excess retained earnings of the corporation for the previous year are distributed as dividends, after replenishing prior capital deficits and establishing reserves as may be required by its operations, approved expansion spending, applicable laws, loan covenants, and internal debt-to-equity ratio limit.

San Miguel Mills, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the board of directors may determine and in accordance with law.

Magnolia Inc.

Dividends shall be declared only from the unrestricted retained earnings of the corporation and shall be payable at such times, manner, and amount determined by the board of directors. Dividends shall not be declared if it will impair the capital of the corporation.

CAPITALIZATION

The following table sets out our consolidated cash and cash equivalents, borrowings, equity and capitalization as of September 30, 2019. The table should be read in conjunction with our unaudited condensed consolidated interim financial statements included in this Prospectus beginning on page F-1. There has been no material change in our capitalization since September 30, 2019.

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMFB as of September 30, 2019. This table should be read in conjunction with more detailed information on reviewed and unaudited financial statements, including notes thereto, found in Annex "B" of the Prospectus.

(in ₱ Millions)	As of September 30, 2019	Adjustments	As adjusted for maximum Offer Size of ₱15.00 billion (Upon issuance of Bonds)
Current Liabilities			
Notes payable……………………………..	₱22,482		₱22,482
Trade payables and other current liabilities	44,254		44,254
Lease liabilities - current portion………....	664		664
Income and other taxes payable…………..	5,158		5,158
Dividends payable…………..…………….	40		40
Current maturities of long-term debt - net of debt issue cost………………….......……	234		234
Total Current Liabilities	72,832		72,832
Noncurrent Liabilities			
Long term debt - net of current maturities and debt issue costs[1]……........…………	22,634	14,801	37,435
Deferred tax liabilities…………………….	53		53
Finance lease liabilities - net of current portion…………...………..……..……..	3,582		3,582
Other noncurrent liabilities…..…………...	1,463		1,463
Total Noncurrent Liabilities….……………	27,732		42,533
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common…......…………….	5,951		5,951
Capital stock - preferred……………………	300		300
Additional paid-in capital………………..…	366,620		366,620
Equity adjust from common control transaction…….…….…….….…….….	(328,273)		(328,273)
Equity Reserve…………………………….	(1,000)		(1,000)
Retained Earnings …………………………			
Appropriated………………………………	16,037		16,037
Unappropriated……………………………	47,954		47,954
Treasury Stock……………………………	(15,182)	(15,000)	(30,182)
	92,407		77,407
Non-controlling interests………………….	46,536		46,536
Total Equity……………………………….	138,943		123,943
Total Capitalization[2] …………………….	₱239,507		₱239,308

Notes:

(1) Adjusted amount as of September 30, 2019 includes proceeds of P15 billion of the Offer, after deduction of fees, commissions and expenses

(2) Total capitalization is the sum of liabilities and equity.

PLAN OF DISTRIBUTION

The Company shall issue the Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners. The Offer does not include an international offering. The Bonds will be issued on March 10, 2020 (the "**Issue Date**") and will be comprised of 5-year Series A Bonds due 2025 (the "**Series A Bonds**") and 7-year Series B Bonds due 2027 (the "**Series B Bonds**"). The Issuer has the discretion to allocate the principal amount among the different series of the Bonds based on the bookbuilding process and may opt not to allocate any amount to any of these series.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, Philippine Commercial Capital, Inc., PNB Capital and Investment Corporation, RCBC Capital Corporation and SB Capital Investment Corporation (the "**Joint Lead Underwriters and Bookrunners**") have agreed to distribute and sell the Bonds at the Purchase Price, pursuant to an Underwriting Agreement with SMFB dated February 20, 2020 (the "**Underwriting Agreement**"). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Lead Underwriters and Bookrunners	**Underwriting Commitment**
BDO Capital & Investment Corporation	₱2,334,000,000.00
BPI Capital Corporation	₱2,334,000,000.00
China Bank Capital Corporation	₱2,333,000,000.00
Philippine Commercial Capital, Inc.	₱1,000,000,000.00
PNB Capital and Investment Corporation	₱2,333,000,000.00
RCBC Capital Corporation	₱2,333,000,000.00
SB Capital Investment Corporation	₱2,333,000,000.00
Total	**₱15,000,000,000.00**

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to SMFB of the net proceeds of the Bonds.

The underwriting fees and any selling fees to be paid by the Company in relation to the Offer shall be equivalent to 0.45% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Lead Underwriters and Bookrunners and any commissions to be paid to the Selling Agents.

The Joint Lead Underwriters and Bookrunners have no direct relations with SMFB in terms of ownership by either of their respective major shareholder/s and have no right to designate or nominate any member of the Board of Directors of SMFB.

The Joint Lead Underwriters and Bookrunners have no contract or other arrangement with SMFB by which it may return to SMFB any unsold Bonds.

For the purpose of complying with their respective commitments under the Underwriting Agreement, each Joint Lead Underwriter and Bookrunner may, under such terms and conditions not inconsistent with the provisions of the Underwriting Agreement, particularly the underwriting commitment of the Joint Lead Underwriters and Bookrunners, enter into agreements with co-lead managers and co-managers, and appoint Selling Agents for the sale and distribution to the public of the Bonds; provided, that the Joint Lead Underwriters and Bookrunners shall remain solely responsible to the Issuer in respect of their obligations under the Underwriting Agreement entered into by them with the Issuer, and except as otherwise provided in the Underwriting Agreement, the Issuer shall not be bound by any of the terms and conditions of any agreements entered into by the Joint Lead Underwriters and Bookrunners with the co-lead managers, co-managers, and Selling Agents.

The Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in the underwriting or distribution of the Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMFB or any of its subsidiaries.

BDO Capital was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2018, it had ₱3.01 billion and ₱2.95 billion in assets and capital, respectively. It has an authorized capital stock of ₱1.10 billion, of which approximately ₱1.00 billion represents its paid-up capital.

BPI Capital is a Philippine corporation organized in the Philippines as a wholly owned subsidiary of the Bank of the Philippine Islands. It obtained its license to operate as an investment house in 1994 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. As of June 30, 2019, its total assets amounted to ₱3.97 billion and its capital base amounted to ₱3.93 billion. It has an authorized capital stock of ₱1.0 billion, of which approximately ₱506.4 million represents its paid-up capital.

China Bank Capital, a subsidiary of China Banking Corporation, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Banking Corporation's investment banking group, which was organized in 2012.

Philippine Commercial Capital, Inc. (PCCI) was incorporated on July 25, 1980 and is considered as one of the oldest investment banks in the country. PCCI has established a solid track record and expertise in the Philippine capital market and consequently obtained the license to operate as trust entity, investment house and securities dealer. As of September 30, 2019, its total assets amounted to ₱488 million and its total capital amounted to ₱364 million.

PNB Capital and Investment Corporation, an investment house with a non-bank, non-quasi-banking license, was incorporated on July 30, 1997 and commenced operations on October 8, 1997. Its principal business is providing investment banking services, namely: debt underwriting, equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the government of the Philippines.

RCBC Capital is a licensed investment house providing a complete range of capital-raising and financial advisory services. Established in 1974, RCBC Capital has over 45 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country’s largest fully integrated financial services conglomerates. As of September 30, 2019, RCBC Capital’s total assets were ₱4.56 billion while total capital was ₱3.65 billion.

SB Capital is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

Sale and Distribution

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Underwriters from purchasing the Bonds for their own respective accounts.

There are no Persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The obligations of each of the Joint Lead Underwriters and Bookrunners will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

Offer Period

The Offer Period shall commence at 9:00 a.m., Manila time, on February 24, 2020 and end at 5:00 p.m., Manila time, on March 3, 2020, or such other dates and time as may be mutually agreed by the Company and the Joint Lead Underwriters and Bookrunners.

Application to Purchase

The procedure set out in this section and the succeeding sections should be read together with the more detailed procedure and other conditions set out in the Application to Purchase.

Applicants may purchase the Bonds during the relevant Offer Periods by submitting to the Underwriters properly completed Applications to Purchase, together with two signature cards, and the full payment of the Purchase Price of the Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing:

(a) an original notarized certificate of the corporate secretary or an equivalent officer of the Applicant setting forth resolutions of the board of directors, partners or equivalent body (i) authorizing the purchase of the Bonds indicated in the Application to Purchase and (ii) designating the signatories, with their specimen signatures, for the said purposes;

(b) copies of its Articles of Incorporation and By-Laws and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, stamped and signed as certified true copies by the SEC or the equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the Applicant who is/are authorized signatory(ies);

(c) two (2) duly accomplished signature cards containing the specimen signatures of the authorized signatories of the Applicant, validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies) (whose authority(ies) and specimen signatures will be submitted to the Registrar and Paying Agent);

(d) BIR Certificate of Registration showing the Applicant's Tax Identification Number;

(e) identification document(s) ("**ID**") of the authorized signatories of the Applicant, as specified in item (a) of the immediately succeeding paragraph below; and

(f) such other documents as may be reasonably required by any of the Joint Lead Underwriters and Bookrunners, Selling Agents (if any) or the Registrar and Paying Agent in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments:

(a) ID of the Applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Tax Identification Number ID, Passport, Driver's License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Maritime Industry Authority (MARINA), Voter's ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman's Book, Alien Certification of Registration/Immigrant Certificate of Registration, Government Office and government-owned and controlled corporation ID, *e.g.*, Armed Forces of the Philippines, Home Development Mutual Fund, Philippine Health Insurance Corporation, Certification from the National Council for the Welfare of Disabled

Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);

(b) two duly accomplished signature cards containing the specimen signature of the Applicant;

(c) validly issued tax identification number issued by the BIR; and

(d) such other documents as may be reasonably required by the Joint Lead Underwriters and Bookrunners, Selling Agents (if any) or the Registrar and Paying Agent in the implementation of their respective internal policies regarding "know your customer" and anti-money laundering.

An Applicant who is claiming exemption from any applicable tax, or entitlement to preferential tax rates shall, in addition to the requirements set forth above, be required to submit the following requirements to the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any) (together with their respective Applications to Purchase), subject to acceptance by the Issuer as being sufficient in form and substance:

(i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;

(ii) with respect to tax treaty relief, a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under the BIR Revenue Memorandum Order No. 72-2010; including any clarification, supplement or amendment thereto and, once available, a BIR-certified certificate, ruling or opinion addressed to the relevant applicant or Bondholder confirming its entitlement to the preferential tax rate under the applicable treaty;

(iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Bonds for its account; or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and the Paying Agent of any suspension, revocation, amendment or invalidation (in whole or in part) or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and

(iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder.

Failure on the part of the Bondholder to submit the aforementioned document(s) within the time prescribed shall result in the application of the regular tax rates.

The Purchase Price for each Bond is payable in full upon submission of the duly executed Application to Purchase. Payments of the Purchase Price shall be made either in checks or appropriate debit instructions or payment instructions made out to the order of the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any). All payments must be made or delivered to the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) to whom the Application to Purchase is submitted.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by SMFB. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

Minimum Purchase

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

Allotment of the Bonds

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to Joint Lead Underwriters' and Bookrunners' exercise of the right of rejection on behalf of the Issuer.

Acceptance of Applications

The Company and the Joint Lead Underwriters and Bookrunners reserve the right to accept or reject applications to purchase the Bonds and allocate the Bonds available to the Applicants in a manner they deem appropriate.

Rejection of Applications

The Joint Lead Underwriters and Bookrunners shall accept, reduce or reject Applications to Purchase on behalf of the Issuer in accordance with the following provisions and the allocation plan. Reasons for rejection may include the following:

(a) Applications may be rejected if: (i) the Purchase Price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonoured upon first presentation; (iii) the Application to Purchase is not received by the Joint Lead Underwriters and Bookrunners or the Selling Agent (if any) on or before the end of the Offer Period; (iv) the number of Bonds subscribed is less than the minimum amount of subscription; (v) the applications do not comply with the terms of the Offer; or (vi) the applications do not have sufficient information or are not supported by the required documents.

(b) Applications may be reduced if the Offer is oversubscribed, in which case the number of Bonds covered by the applications shall be reduced *pro rata*.

In the event an Application to Purchase is rejected or the amount of Bonds applied for is scaled down for a particular Applicant, the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) shall notify the Applicant concerned that his/her application has been rejected or that the amount of Bonds applied for is scaled down.

Refunds

If any application is rejected or accepted in part only, payments made by the Applicant or the appropriate portion thereof shall be returned without interest to such Applicant through the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) with whom such Application to Purchase was made.

Refunds shall be made, at the option of each Joint Lead Underwriter and Bookrunner or the Selling Agent (if any), either (i) through the issuance of check(s) payable to the order of the relevant Applicant and crossed "Payees' Account Only" and mailed or delivered, at the risk of the Applicant, to the address specified in the Application to Purchase, or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant Applicants, as indicated in their respective Applications to Purchase.

Payments

The Registrar and Paying Agent shall open and maintain a Payment Account for each series of the Bonds, which shall be operated solely and exclusively by the said Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement, provided that beneficial ownership of the Payment Accounts shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the principal, interest and other payments due on the Bonds on the relevant Payment Date.

The Registrar and Paying Agent shall maintain the relevant Payment Account while the relevant series of the Bonds are outstanding, and until six (6) months past the relevant Maturity Date or date of early redemption, as applicable. Upon closure of the Payment Accounts, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments and such other payments that due on the relevant series of the Bonds.

Unclaimed Payments

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Registrar and Paying Agent for the Bondholders at the latter's risk and shall be dealt with in accordance with the relevant provisions of the Registry and Paying Agency Agreement.

Purchase and Cancellation

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make *pro rata* purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

Secondary Market

The Company intends to list the Bonds in the PDEx.

For a more detailed discussion, please refer to the section "*Description of the Bonds – Secondary Trading of the Bonds*".

Registry of Bondholders

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing each of the Series A Bonds and Series B Bonds sold in the Offer shall be issued in the name of the Trustee for the benefit of the Bondholders.

Legal title to the Bonds shall be shown in the Registry of Bondholders to be maintained by the Registrar and Paying Agent. The names and addresses of the Bondholders and the particulars of the Bonds held by them and all transfers of the Bonds shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

For a more detailed discussion, please refer to the section "*Description of the Bonds – Transfer of the Bonds*".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Food and Beverage, Inc. ("SMFB" or "the Company", formerly San Miguel Pure Foods Company Inc.) and its subsidiaries (collectively, referred to as the "Group") as of and for the period ended September 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2019, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with the Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE

<u>Nine months ended September 30, 2019 compared to nine months ended September 30, 2018</u>

The Group continues to see strong sales volume growth across the various segments for the third quarter of 2019.

The consolidated sales for the nine months ended September 30, 2019 amounted to P226,365 million, 10% higher compared to the same period in 2018. Consolidated net income amounted P22,922 million slightly lower by P7 million compared to the same period in 2018. The Company's performance is mainly attributed to higher sales volume across all segments of the Group. This was offset by higher costs due to elevated raw material costs and higher operating expenses due to expansion initiatives.

<u>Sales</u>
The consolidated sales increased by 10% from P206,620 million for the nine months ended September 30, 2018 to P226,365 million for the same period in 2019. Sales in the Beer and NAB Segment increased by 11% from P93,361 million in 2018 to P103,883 million in 2019, sales in the Spirits Segment increased by 20% from P17,915 million in 2018 to P21,430 million in 2019, and sales in the Food Segment increased by 6% from P95,344 million in 2018 to P101,052 million in 2019. The increase was mainly due to higher sales volumes in each segment.

<u>Cost of Sales</u>
The consolidated cost of sales increased by 12% from P139,606 million for the nine months ended September 30, 2018 to P156,038 million for the same period in 2019. Cost of sales in the Beer and NAB Segment increased by 12% from P51,997 million in 2018 to P58,338 million in 2019, cost of sales in the Spirits Segment increased by 18% from P13,155 million in 2018 to P15,544 million in 2019, and cost of sales in the Food Segment increased by 10% from P74,454 million in 2018 to P82,156 million in 2019. The increase was primarily due to the increase in sales volume across all segments, increase in prices of raw materials and higher excise taxes for the Beer and NAB and Spirits Segments.

The table summarizes the cost of sales for the nine months ended September 30, 2019 (amounts in millions):

	Beer and NAB	Spirits	Food	Total
Inventories	P10,992	P7,546	P71,867	P90,405
Excise tax	42,235	6,892	-	49,127
Labor	1,360	237	1,294	2,891
Others	3,751	869	8,995	13,615
	P58,338	P15,544	P82,156	P156,038

Gross profit
The consolidated gross profit increased by 5% from P67,014 million for the nine months ended September 30, 2018 to P70,327 million for the same period in 2019. This increase resulted primarily from the increase in sales volume of the Group.

Selling and Administrative Expenses
The consolidated selling and administrative expenses increased by 11% from P32,989 million for the nine months ended September 30, 2018 to P36,742 million for the same period in 2019. Selling and administrative expenses in the Beer and NAB Segment increased by 12% from P15,446 million in 2018 to P17,339 million in 2019, selling and administrative expenses in the Spirits Segment increased by 7% from P3,432 million in 2018 to P3,677 million in 2019, and selling and administrative expenses in the Food Segment increased by 11% from P14,111 million in 2018 to P15,726 million in 2019 (includes other administrative expenses of the Parent Company amounting to P38 million). The increase was primarily due to the increase in personnel, logistics, contracted services costs, and advertising and promotions.

Interest Expense and Other Financing Charges
The consolidated interest expense and other financing charges increased by 14% from P2,025 million for the nine months ended September 30, 2018 to P2,316 million for the same period in 2019. The increase was mainly due to the higher interest-bearing debt balance of the Food Segment in 2019.

Interest Income
The consolidated interest income increased by 16% from P831 million for the nine months ended September 30, 2018 to P968 million for the same period in 2019. The increase was primarily due to higher average level of money market placements of the Beer and NAB Segment in 2019.

Equity in Net Losses of Joint Ventures
The consolidated equity in net losses of joint ventures increased from P64 million for the nine months ended September 30, 2018 to P191 million for the same period in 2019, as this was primarily driven by higher losses in the Group's joint ventures.

Loss on Sale of Investments and Property and Equipment
The Group recognized a consolidated loss on sale of investments and property and equipment amounting to P1 million for the nine months ended September 30, 2019 resulting from assets disposed during the period.

Other Income (Charges) – Net
The Group recognized a consolidated other income amounting to P303 million for the nine months ended September 30, 2019 compared to the consolidated other charges of P281 million for the same period in 2018. Other income in 2019 was primarily due to marked-to-market gains and foreign exchange gains resulting from the appreciation of the Philippine Peso against other foreign currencies during the period.

Net Income before Income Tax
As a result of the foregoing, consolidated net income before income tax slightly decreased from P32,488 million for the nine months ended September 30, 2018 to P32,348 million for the same period in 2019.

Income Tax Expense
The consolidated income tax expense decreased by 1% from P9,559 million for the nine months ended September 30, 2018 to P9,426 million for the same period in 2019. This decrease was primarily due to lower consolidated taxable income.

Net Income
As a result of the foregoing, SMFB's consolidated net income slightly decreased by P7 million from P22,929 million for the nine months ended September 30, 2018 to P22,922 million for the same period in 2019. Net income of the Beer and NAB Segment increased by 12% from P17,768 million in 2018 to P19,841 million in 2019 while net income of the Spirits Segment increased by 68% from P789 million in 2018 to P1,325 million in 2019. The net income of the Food Segment decreased by 60% from P4,372 million in 2018 to P1,756 million (inclusive of other administrative expenses of the Parent Company) in 2019.

Net Income after Tax and Minority Interest

As a result of the foregoing, SMFB's consolidated net income after tax and minority interest decreased by 8% from P13,731 million for the nine months ended September 30, 2018 to P12,653 million for the same period in 2019. Net income after tax and minority interest of the Beer and NAB Segment increased by 12% from P8,883 million in 2018 to P9,952 million in 2019, net income after tax and minority interest of the Spirits Segment increased by 68% from P536 million in 2018 to P901 million in 2019 and net income after tax and minority interest of the Food Segment decreased by 58% from P4,312 million in 2018 to P1,800 million (inclusive of other administrative expenses of the Parent Company) in 2019.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

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

The consolidated sales for the nine months ended September 30, 2018 amounted to P206,620 million, 15% higher compared to the same period in 2017. The consolidated net income amounted to P22,929 million, 17% higher than in the first nine months of 2017, which is mainly attributed to higher sales volume and gross margin across all segments of the Group.

Sales

The consolidated sales increased by 15% from P180,436 million for the nine months ended September 30, 2017 to P206,620 million for the same period in 2018. Sales in the Beer and NAB Segment increased by 16% from P80,655 million in 2017 to P93,361 million in 2018, sales in the Spirits Segment increased by 17% from P15,329 million in 2017 to P17,915 million in 2018, and sales in the Food Segment increased by 13% from P84,452 million in 2017 to P95,344 million in 2018. The increase was mainly due to higher sales volumes in each segment and favorable selling prices in the Food Segment.

Cost of Sales

The consolidated cost of sales increased by 15% from P121,509 million for the nine months ended September 30, 2017 to P139,606 million for the same period in 2018. Cost of sales in the Beer and NAB Segment increased by 14% from P45,434 million in 2017 to P51,997 million in 2018, cost of sales in the Spirits Segment increased by 14% from P11,506 million in 2017 to P13,155 million in 2018, and cost of sales in the Food Segment increased by 15% from P64,569 million in 2017 to P74,454 million in 2018. This increase was primarily due to the increase in volume across all segments and increase in prices of raw materials, particularly in feeds, dairy and processed meats and higher excise taxes for the Beer and NAB and Spirits Segments.

The table summarizes the cost of sales for the nine months ended September 30, 2018 (amounts in millions):

	Beer and NAB	Spirits	Food	Total
Inventories	P9,270	P6,350	P65,353	P80,973
Excise tax	37,593	5,582	-	43,175
Labor	1,254	213	1,116	2,583
Others	3,880	1,010	7,985	12,875
	P51,997	P13,155	P74,454	P139,606

Gross profit
The consolidated gross profit increased by 14% from P58,927 million for the nine months ended September 30, 2017 to P67,014 million for the same period in 2018. This increase resulted primarily from the increase in sales volume of the Group.

Selling and Administrative Expenses
The consolidated selling and administrative expenses increased by 10% from P29,888 million for the nine months ended September 30, 2017 to P32,989 million for the same period in 2018. Selling and administrative expenses in the Beer and NAB Segment increased by 12% from P13,807 million in 2017 to P15,446 million in 2018, selling and administrative expenses in the Spirits Segment increased by 16% from P2,948 million in 2017 to P3,432 million in 2018, and selling and administrative expenses in the Food Segment increased by 7% from P13,133 million in 2017 to P14,111 million in 2018. This increase was primarily due to the increase in personnel, logistics, contracted services costs, and advertising and promotions. Selling and administrative expenses generally tend to increase as we expand our market penetration and share.

Interest Expense and Other Financing Charges
The consolidated interest expense and other financing charges remained the same at P2,025 million for the nine months ended September 30, 2017 and for the same period in 2018.

Interest Income
The consolidated interest income increased by 72% from P483 million for the nine months ended September 30, 2017 to P831 million for the same period in 2018. The increase was primarily due to higher average level of money market placements of the Beer and NAB Segment for the period.

Equity in Net Losses of Joint Ventures
The consolidated equity in net losses of joint ventures decreased by 9% from P70 million for the nine months ended September 30, 2017 to P64 million for the same period in 2018. The decrease was due to lower share in net losses recognized during the period.

Gain on Sale of Investments and Property and Equipment
The consolidated gain on sale of investments and property and equipment decreased by 60% from P5 million for the nine months ended September 30, 2017 to P2 million for the same period in 2018. This decrease was primarily due to lower gain on sale of property and equipment recognized by the Food Segment on assets disposed in the first nine months of 2018 compared to the same period in 2017.

Other Income (Charges) - Net
The consolidated other income (charges) - net decreased from P65 million other income-net for the nine months ended September 30, 2017 to P281 million other charges-net for the same period in 2018. Other charges in 2018 was primarily due to higher marked-to-market losses on importations of the Food and Beer and NAB Segments due to further depreciation of the Philippine Peso against other foreign currencies in the third quarter of the year, coming from the first half of 2018.

Net Income before Income Tax
As a result of the foregoing, consolidated net income before income tax increased by 18% from P27,498 million for the nine months ended September 30, 2017 to P32,488 million for the same period in 2018.

Income Tax Expense
The income tax expense increased by 20% from P7,942 million for the nine months ended September 30, 2017 to P9,559 million for the same period in 2018. This increase was primarily due to the higher consolidated taxable income.

Net Income
As a result of the foregoing, our consolidated net income increased by 17% from P19,556 million for the nine months ended September 30, 2017 to P22,929 million for the same period in 2018. Net income of the Beer and NAB Segment increased by 23% from P14,400 million in 2017 to P17,768 million in 2018, net income of the Spirits Segment increased by 81% from P437 million in 2017 to P789 million in 2018 and net income of the Food Segment decreased by 7% from P4,719 million in 2017 to P4,372 million in 2018.

Net Income after Tax and Minority Interest
As a result of the foregoing, our consolidated net income after tax and minority interest increased by 14% from P12,046 million for the nine months ended September 30, 2017 to P13,731 million for the same period in 2018.

Net income after tax and minority interest of the Beer and NAB Segment increased by 23% from P7,198 million in 2017 to P8,883 million in 2018, net income after tax and minority interest of the Spirits Segment increased by 80% from P297 million in 2017 to P536 million in 2018 and net income after tax and minority interest of the Food Segment decreased by 5% from P4,551 million in 2017 to P4,312 million in 2018.

II. FINANCIAL POSITION

Financial Position as of September 30, 2019 vs December 31, 2018

Consolidated total assets as of September 30, 2019 amounted to P239,507 million, P1,003 million higher than in December 31, 2018. The slight increase was primarily due to the acquisition of property, plant and equipment and recognition of right-of-use assets which was offset by the redemption of the Beer and NAB Segment's fixed rate bonds. Consolidated total liabilities as of September 30, 2019 amounted to P100,564 million, 7% or P7,825 million lower than in December 31, 2018. The decrease was primarily due to the redemption of fixed rate bonds which was partially offset by the recognition of lease liabilities.

Cash and cash equivalents decreased by 41% or P15,984 million due to the Beer and NAB Segment's redemption of their Series C and E bonds and payment of expansion projects of the Beer and NAB and Food Segments.

Trade and other receivables decreased by 5% or P907 million due to collection of receivables from peak season sales in December 2018 and lower credit sales in the third quarter of 2019 of the Food Segment.

Inventories increased by 7% or P2,710 million due to the Spirits and Beer and NAB Segments' purchases of major raw materials in anticipation for higher demand in the last quarter of 2019.

Prepaid expenses and other current assets decreased by 6% or P315 million due to lower deposit for excise tax of the Beer and NAB Segment.

Investments decreased by 51% or P174 million due to net losses on joint ventures.

Property, plant and equipment increased by 14% or P8,910 million due to the expansion projects of the Beer and NAB and Food Segments.

Right-of-use assets amounting to P4,640 million was recognized upon adoption of PFRS 16.

Investment property increased by 22% or P514 million due to the Beer and NAB Segment's reclassification of right-of-use assets under other intangible account to investment property account upon adoption of PFRS 16.

Biological assets – net of current portion increased by 11% or P303 million due to the increase in production costs brought about by higher feed cost.

Deferred tax assets increased by 10% or P234 million due to the Food Segment's recognition of additional temporary deductible difference.

Other noncurrent assets increased by 12% or P2,341 million due to purchases of containers and increase in advances to suppliers of the Beer and NAB Segment.

Notes payable increased by 2% or P503 million due to the additional loan availments made by the Food Segment, which was partially offset by the paydown of notes payables by the Beer and NAB and Spirits Segments.

Lease liabilities amounting to P4,246 million was recognized upon adoption of PFRS 16.

Dividends payable increased by P6 million mainly due to the increase in unpaid dividends payable of the Beer and NAB Segment.

Long-term debt decreased by 36% or P12,840 million due to the Beer and NAB Segment's redemption of their Series C and E bonds.

Other noncurrent liabilities decreased by 11% or P180 million due to the reclassification of the deposit for future stock subscription of the Beer and NAB Segment to equity under non-controlling interest.

Consolidated total equity as of September 30, 2019 amounted to P138,943 million, 7% or P8,828 million higher than in December 31, 2018. The increase was primarily due to the net income amounting to P22,922 million which was offset by the dividends declared by the Group amounting P14,383 million during the period.

Financial Position as of September 30, 2018 vs December 31, 2017

Consolidated total assets as of September 30, 2018 amounted to P221,384 million, 8% or P16,281 million higher than in December 31, 2017. The increase was primarily due to the increase in property, plant, and equipment and other noncurrent assets. Consolidated total liabilities as of September 30, 2018 amounted to P94,741 million, 5% or P4,259 million higher than year-end last year. The increase was primarily due to the availment of loans by the Food and Spirits Segments and higher trade payables and other current liabilities.

Cash and cash equivalents was slightly higher by 1% or P248 million due to net proceeds from cash generated from operations and availment of loans used to finance the Group's expansion projects and working capital requirement.

Trade and other receivables decreased by 11% or P1,965 million due to higher collection of receivables from peak season sales, lower credit sales and continued effort to improve receivables' days level during the period.

Inventories increased by 22% or P6,163 million due to increase in purchases of finished goods, raw materials and containers in preparation for higher demand towards the last quarter of the year.

The Food Segment's purposive volume build-up of live broiler grown and poultry breeding stock, in anticipation of higher demand for chicken in the fourth quarter, as well as higher growing costs of broilers and piglets, resulted in the increase in current and noncurrent biological assets by 21% or P725 million and 6% or P171 million, respectively.

Prepaid expenses and other current assets decreased by 15% or P750 million due to utilization of deposit for excise tax of the domestic operations of the Beer and NAB Segment, application of input taxes and amortization of prepayments by the Group during the period.

Investments decreased by 7% or P27 million due to share in equity in net losses of joint ventures.

Property, plant and equipment increased by 16% or P8,095 million mainly due to the expansion projects of the Food and Beer and NAB Segments.

Other noncurrent assets increased by 25% or P3,404 million mainly due the Beer and NAB Segment's purchase of new containers.

Notes payable had a net increase by 16% or P2,191 million mainly due to additional loan availments of the Food Segment to finance their expansion projects.

Trade payables and other current liabilities increased by 6% or P1,867 million due to purchases of inventories and accrual of interest by the Beer and NAB Segment.

Income and other taxes payable decreased by 15% or P835 million due to lower taxable income for the third quarter of 2018 against fourth quarter of 2017.

Dividends payable increased by 10% or P3 million mainly due to the increase in unclaimed dividends payable of the Beer and NAB Segment.

Long-term debt had a net increase of 3% or P916 million due to an availment of loan by the Spirits segment to term out some of its debt liabilities. The Beer and NAB Segment's Series C and Series E fixed rate bonds totaling to P12,856 million, which will mature in April 2019, were reclassified as current maturities of long-term debt.

Other noncurrent liabilities increased by 5% or P118 million mainly due to the deposit for future stock subscription of the Beer and NAB segment.

Consolidated total equity as of September 30, 2018 amounted to P126,643 million, 10% or P12,022 million higher than in December 31, 2017. The increase was primarily due to the net income amounting to P22,929 million which was offset by the dividends declared by the Group amounting P11,657 million during the period.

As of the date of this Prospectus, the Company had discussions with the SEC in connection with a change in the classification of containers deposit as a reduction in "Inventories" account to current liabilities under "Trade payables and other current liabilities" account, in relation to the adoption of PFRS 15, Revenue Recognition in 2018.

The Company submitted written clarifications on the subject that were primarily anchored on its business model, accounting practices of companies in the same industry and on the provisions of PAS 18 prior to the adoption of PFRS 15, which now provides clear guidance on the matter. The Company explained as well the non-applicability of PAS 32 given its business model, the nature of the containers deposit transactions and its impact on the Company's going concern operating cycle.

On February 6, 2020, the SEC issued a position that based on the provisions of PAS 32, the containers deposit should have been recognized by the Company in 2017 as a liability instead of a reduction in "Inventories" account. The Commission recommended to either amend the 2018 consolidated audited financial statements or submit the 2019 consolidated audited financial statement of financial position. For purposes of this Offering, the SEC allowed the Company to provide the disclosures in this section.

The Company undertakes to submit the 2019 consolidated audited financial statements with third statement of financial position.

The following illustrate the effect to the audited financial statements as of December 31, 2017, is hereby presented:

	As Reported	**As Proposed**
Statement of Financial Position		
Inventories	P28,358	P32,091
Trade payables and other current liabilities	33,609	37,342
Statement of Income		
Net income	P28,226	P28,226
Earnings per share	2.78	2.78

Based on the foregoing, total current assets and total current liabilities will increase by P3,733 million. There will be no impact on the net income and earnings per share.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements for the periods ended September 30, 2019 and 2018 is shown below:

	2019	**2018**
	(in Millions)	
Net cash flows provided by operating activities	P29,887	P27,113
Net cash flows used in investing activities	(18,249)	(18,239)
Net cash flows used in financing activities	(27,483)	(9,320)

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

Net cash used in investing activities include the following:

	2019	2018
	(in Millions)	
Additions to property, plant and equipment and investment property	(P11,287)	(P9,759)
Increase in biological assets, intangible assets and other noncurrent assets	(7,168)	(8,489)
Proceeds from sale of investments and property, and equipment	206	9

Net cash used in financing activities consist of the following:

	2019	2018
	(in Millions)	
Proceeds from short-term borrowings and long-term borrowings	P157,034	P119,155
Additions to non-controlling interests	90	-
Payments of short-term and long-term borrowings	(169,402)	(116,084)
Cash dividends paid	(14,377)	(11,657)
Payment of lease liabilities	(825)	-
Payment of share issuance costs	(3)	(734)

The effect of exchange rate changes on cash and cash equivalents amounted to (P139) million and P694 million for the period ended September 30, 2019 and 2018, respectively.

IV. KEY PERFORMANCE INDICATORS

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

KPI	As of September 30, 2019	As of December 31, 2018
Liquidity:		
Current Ratio	1.27	1.28
Solvency:		
Debt to Equity Ratio	0.72	0.83
Asset to Equity Ratio	1.72	1.83
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	21.76%	25.53%
Interest Rate Coverage Ratio	14.97	15.46

	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Operating Efficiency:		
Volume Growth	5.83%	9.43%
Revenue Growth	9.56%	14.51%
Operating Margin	14.84%	16.47%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

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

* *Annualized for quarterly reporting; excluding cash dividends paid to preferred shareholders*
** *Excluding preferred capital stock and related additional paid-in capital*

BUSINESS

OVERVIEW

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, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy,* for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds. We believe that bulk of SMFB's revenues are generated from seven categories where the Company holds the No. 1 position for beverages and food. For the year ended 2018, most of our brands held market-leading positions such as our beer brands, which have an aggregate market share of 94.2% according to GlobalData.

We have three primary operating divisions—(i) beer and non-alcoholic beverages ("**NAB**"), (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise our beverage business (the "**Beverage business**"). We operate our Beverage business through San Miguel Brewery Inc. and its subsidiaries ("**SMB**" or the "**Beer and NAB Division**") and Ginebra San Miguel Inc. and its subsidiaries ("**GSMI**" or the "**Spirits Division**"). Our Food business (the "**Food Division**") is managed through a number of other subsidiaries, including San Miguel Foods, Inc. ("**SMFI**"), Magnolia Inc., and The Purefoods-Hormel Company, Inc. ("**Purefoods-Hormel**"). We serve the Philippine archipelago through an extensive distribution and dealer network and export our products to almost 60 markets worldwide.

We are a subsidiary of San Miguel Corporation ("**SMC**" and together with its portfolio of companies, the "**San Miguel Group**"), one of the largest and most diversified conglomerates in the Philippines by revenue and total assets, with sales equivalent to approximately 5.9% of Philippine GDP in 2018. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property, car distributorship and banking services. We are a key business group under the San Miguel Group that is interwoven with the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation.

We are listed on the PSE under stock code "**FB**". On June 29, 2018, SMC approved and implemented the internal restructuring and consolidation of its food and beverage businesses under SMFB (previously known as San Miguel Pure Foods Company Inc., "**SMPFC**"). As part of the consolidation, SMB and GSMI were consolidated with the Food Division under SMFB, thereby establishing a unique unit within the San Miguel Group focused on the food and beverage businesses. Our market capitalization was ₱502,283,707,650.00, with a common share price of ₱85.00 as of December 27, 2019.

For each of the years ended December 31, 2016, 2017 and 2018, SMFB had consolidated sales of ₱227, 279 million, ₱251,589 million and ₱286,378 million; consolidated gross profit of ₱75,171 million, ₱83,129 million and ₱92,142 million; consolidated EBITDA of ₱44,795 million, ₱49,937 million and ₱54,725 million; and consolidated net income of ₱24,002 million, ₱28,226 million and ₱30,533 million, respectively.

For the nine-month period ended September 30, 2018, we had consolidated sales of ₱206,620 million, consolidated gross profit of ₱67,014 million, consolidated EBITDA of ₱39,949 million and consolidated net income of ₱22,929 million compared to consolidated sales of ₱226,365 million, consolidated gross profit of ₱70,327 million, consolidated EBITDA of ₱41,338 million and consolidated net income of ₱22,922 million for the nine-month period ended September 30, 2019.

The following table sets forth the contribution of the three divisions to total sales for the periods indicated:

	For the years ended December 31						For the nine-month period ended September 30			
	2016		2017		2018		2018		2019	
	₱	%	₱	%	₱	%	₱	%	₱	%
	(in millions, except for percentages)									
Sales[(1)]										
Beverage Business										
Beer and NAB Division…..	97,156	42.7	113,250	45.0	129,245	45.1	93,361	45.2	103,883	45.9
Spirits Division..................	18,560	8.2	20,891	8.3	24,835	8.7	17,915	8.7	21,430	9.5
Food Division…………….	111,563	49.1	117,448	46.7	132,298	46.2	95,344	46.1	101,052	44.6
Total……………………….	227,279	100.0	251,589	100.0	286,378	100.0	206,620	100.0	226,365	100.0

Note:

(1) Represents the external sales of each division and excludes inter-division sales.

STRENGTHS AND STRATEGIES

Competitive Strengths

We believe that we have the following competitive strengths:

One of the largest consumer companies in the Philippines with a rich heritage of 130 years

We are one of the largest consumer companies by revenue and net income among our publicly listed peers in the Philippines with consolidated sales of ₱286,378 million and ₱226,365 million and consolidated net income of ₱30,533 million and ₱22,922 million in 2018 and September 30, 2019, respectively. Our beer division was founded as *La Fabrica de Cerveza de San Miguel* in 1890, a single brewery with a single product and over the years, we have transformed the *San Miguel* brand into a household name that is interwoven with the economic and cultural fabric of the Philippines, supporting Philippine development and economic progress. Our 130 years of heritage has allowed us to develop a deep and unparalleled understanding of our consumers, an extensive and efficient nationwide distribution network and deeply entrenched brands that provide us with significant competitive advantage. We believe that we have continuously demonstrated our ability to adapt throughout our history by leveraging extensive operational know-how, market experience and consumer insight to remain at the forefront of new trends and innovations, thereby allowing us to successfully enter new categories and capture incremental market share over the years.

Powerful portfolio of iconic and trusted brands that resonate deeply with our local consumers

Our key brands have a rich history and long track record, catering to consumers for over a century. For example, *Ginebra San Miguel* was launched in 1834, *San Miguel* beer was established in 1890, *Magnolia* in 1925, *B-Meg* in 1953 and *Purefoods* in 1956. Our strength is demonstrated by leading brand rankings in several segments and product categories. We produce the top beer brands in the country with a market share by volume of 94.2% in 2018 according to GlobalData. Despite the entry of local beer competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, we believe that our brands are top-of-mind and continue to maintain their leading positions across market segments. *Super Dry* is the market leader in the premium segment. *Red Horse, San Miguel Pale Pilsen* and *San Mig Light* are the leading brands in the mainstream segment, and *Gold Eagle* leads in the economy segment. According to The Nielsen Company, our core spirits brands, *Ginebra San Miguel* and *Vino Kulafu* are also market leaders in the gin and Chinese wine categories at 96.4% and 64.1% volume share, respectively, as of September 2019. Similarly, *Purefoods* (branded processed meats), *Magnolia* (fresh chicken), *Monterey* (fresh meats), *Star* (butter and spreadable fats), and *B-Meg* (feeds) are market leaders in value terms for their respective categories (Copyright © 2018, The Nielsen Company).

SMFB also employs a variety of marketing formats to establish its food products as the trusted brand of choice. In 2019, *Magnolia* was recognized as Asia's Best Brands by Chief Marketing Officers (CMO) Asia, *Monterey, Magnolia* and *Purefoods Corned Beef* were recognized as trusted brands by Reader's Digest for 2019 and 2018 with *Monterey* and *Magnolia Chicken* receiving a platinum award while *Purefoods Corned Beef* garnered a gold award. The *Magnolia* brand was also recognized as the top 24 brand out of the 1,000 most loved brands in the Philippines by Campaign Asia in 2017; recognized in the 2018 Panata Awards, and was awarded the Silver Award for Excellence in Marketing Innovation, Bronze Award for Excellence in Customer Empowerment (People's Choice), and Finalist in Excellence in Brand Positioning. SMFB's beer products have received numerous international awards for product quality and excellence including awards from Monde

Selection. Monde Selection is an international institute based in Belgium founded in 1961 which evaluates, tests and awards consumer products with its quality label. Since 2000, *San Miguel* beers have received an aggregate of 270 grand gold, gold, silver and bronze medals including 45 trophies and awards from Monde Selection. In 2017, the Company's beer products received gold medals for *Super Dry*, *Cerveza Negra*, *San Mig Light*, *Red Horse,* and *Anker* and silver medals for *San Miguel Premium All Malt*, *San Miguel Pale Pilsen* and *San Mig Light*. The Spirits Division also received numerous international awards for product quality and excellence. Since 2005, close to 60 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue, Ginebra San Miguel Premium Gin* and *Ginebra San Miguel,* and silver medals for *GSM Blue Flavors Mojito, Vino Kulafu* and *Primera Light Brandy*. The Spirits Division also received an Anvil Gold for its internal communications campaign, *One Ginebra, One Goal*, as well as a Quill for its *Ginebra Ako* campaign.

Our diversified brand and product portfolio satisfy multiple consumption occasions and caters to different market segments by addressing varying consumer needs, lifestyles and preferences. *San Mig Light* and *San Mig Zero* were introduced to address the increasing health consciousness of beer drinkers. *Red Horse* was launched in response to the growing demand for higher alcohol content beverages, while *San Miguel Flavored Beer* caters to entry point drinkers. *Ginebra San Miguel* and *Vino Kulafu* target the mature segment, while *GSM Blue and GSM Blue Flavors* target the growing younger segment. Our Food Division introduced *Magnolia* marinated and choice chicken cut-ups and customized flour premixes to address consumer need for convenience. Each of our brands represent a unique experience for our consumers. For example, the consumption of *San Miguel* beer fosters camaraderie and enhances the celebration of life milestones, thus nurturing friendships and authentic connections. *Ginebra* conveys a brand image of resiliency, strength, perseverance, and a "never-say-die" spirit. *Magnolia* stands for freshness and family love through its quality products covering several categories from chicken to dairy and bread spread products. *Purefoods* stands for quality value-added meats and offers food products that are "ready-to-eat" and "heat and serve" to address our consumers' increasing need for convenience. We also launched a new line of canned meat products to cater to the huge consumer market for affordable but high-quality packaged meats. The *Star* brand is a well-known brand of trusted quality and nutrition within the lower and middle income segments. We have won numerous international awards for quality and excellence, in recognition of our products' leadership in their respective segments and as a result of our strong brand equity and high-quality products.

We believe that our well-recognized brands, our ability to customize our products to cater to specific needs, and the sale of a number of our products through our clean and convenient branded distribution outlets enable SMFB to command favorable pricing. The diversity of our product offering reduces our dependence on any single product segment and makes us more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another.

Our beer brands have significant international brand equity with a global presence in approximately 60 countries. We are one of the leading brands in the market or segment for the countries where we operate. For example, *San Mig Light* is a leading premium beer brand in Thailand, *Anker Bir* is a leading beer brand in Indonesia, and *Blue Star* is a leading beer brand in North China. Our food products also have a growing international presence in North America, South East Asia, Australia and the Middle East.

Leading market positions in the most attractive consumer categories

Our businesses hold market-leading positions across the food and beverage categories with large addressable markets and attractive growth prospects. Through the SMFB Consolidation, we are now a unique platform offering an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in six categories and serving the full spectrum of the growing domestic population. We are intimately involved in our consumers' lives at every meal and occasion, guided by our company slogan of "*Celebrating Life*." We believe that our products are part of the daily lives of our consumers, providing sustenance and enjoyment to families through our trusted food brands and celebrating friendships and camaraderie with our world-class portfolio of beer and NAB and spirit products. Our product portfolio is suitable for any occasion throughout the year, whether it be for our consumers' everyday consumption or for their most significant life events, and continuously evolves to cater to consumer tastes and preferences. Based on a survey conducted by KantarWorldpanel, between June 2015 to June 2018, our products were present in 92% of Filipino homes.

SMFB's total addressable market comprises 41.8% of the Philippine food and beverage ("**F&B**") market in 2017. The same addressable market (excluding NAB) is expected to grow at 7.2% CAGR from 2017 to 2021, compared to 5.3% CAGR for the total Philippine F&B market, according to GlobalData.

According to the same source, we are currently the largest beer producer in the Philippines with a 94.2% market share and have consistently held over 90% market share by volume since 1999. We are also the 13th largest beer producer globally by volume and one of the top four Asian beer players in 2017 by revenue. Our significant competitive advantage is demonstrated by our consumers' strong preferences for *San Miguel* products over competition. As a highly resilient category with a stable and loyal customer base, the Philippine beer industry is currently valued at US$2,983 million and is expected to grow at a CAGR of 9% from 2017 to 2022, according to GlobalData.

Our market leadership in spirits is demonstrated by our strong market share in the gin category and a growing demand for our Chinese wine product. We produce *Ginebra San Miguel* which is the world's number one selling gin by volume according to GlobalData. We believe that our core spirits brands in gin and Chinese wine are gaining popularity domestically and taking market share from other spirits in the Philippines. According to GlobalData, the gin and Chinese wine categories are among the fastest growing segments with 7.6% and 9.9% total volume CAGR from 2017 to 2022, respectively, poised to outpace the growth of the spirits industry. The spirits market in the Philippines is currently valued at US$2,043 million and is expected to grow at a CAGR of 4.8% from 2017 to 2022, according to GlobalData.

Strategically located production facilities providing strong competitive advantages

We believe our production facilities are strategically located throughout the Philippines, providing wide coverage of the population while optimizing distribution costs.

With six beer production facilities strategically located across the Philippines and in close proximity to consumer markets, we are able to serve all regions and transport beer products to market within five to seven days of production, thus ensuring product availability and freshness. Spirits are produced from fine alcohol obtained from a centralized distillery in Negros Occidental, which is the Philippines' largest molasses producing region, and bottled at five domestic facilities located across the country. We also operate a nationwide manufacturing network for food products with 37 feed mills, 60 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas and Mindanao. As a result of our food production facilities' proximity to markets and efficient cold chain, we are able to ensure optimal shelf life and reduce perishability of fresh products. We believe our facilities are among the most efficient in the country given our use of modern technology. Our production facilities are equipped with automated machines which can manufacture and package products in a variety of formats, while maintaining low production costs. Most of our poultry farms are equipped with tunnel ventilation to produce healthier, higher quality and more cost-efficient meats.

Additionally, our facilities are compliant with the strict international requirements of International Organization for Standardization ("**ISO**"), Good Manufacturing Practices ("**GMP**") and Hazard Analysis of Critical Control Points ("**HACCP**") certifications. Our Food Division strictly complies with relevant regulations which mandate recall of food products which may pose a major food safety issue. Our stringent safety and quality standards are reflected in our historical track record where we have had no major food and beverage safety incident in the last five years.

Extensive distribution network across the Philippines covering diverse channels

The Philippine archipelago consists of 7,641 islands divided into three main regions of Luzon (including Greater Manila), Visayas and Mindanao that have distinct macro and industry dynamics. This creates a unique market and competitive landscape that allows us to significantly benefit from the scale of our extensive nationwide distribution network.

As the leading player in the Philippines, our products occupy prime shelf spaces in groceries, convenience stores, and *mom* and *pop* stores across the country.

We believe that we have the largest and most extensive distribution network in the Philippines. The Beer and NAB Division operates over 50 sales offices, having partnerships with approximately 500 dealers with its products present in over 400,000 outlets. The Spirits Division operates 15 sales offices situated strategically across the Philippines and coordinates with a network of 91 dealer sites covering approximately 141,000 outlets. Our food products are offered through approximately 130,000 points of sale, having partnerships with over 600 dealers/distributors.

To service our distribution network, we have established dedicated teams and customized products to target different distribution channels. We believe that our multi-channel distribution platform has allowed us to maximize customer reach and has been one of the key factors to our success in building and developing our market-leading positions. We supply our products to *mom* and *pop* stores, wet markets and other traditional retail outlets; modern trade outlets, including supermarkets, hypermarkets, convenience stores and grocery stores; on-premise channels such as hotels, restaurants, cafes and bars; exclusive retail outlets; and franchised stores. In particular, we have a key accounts group within each division, which focuses on maximizing distribution across all channels.

We are able to reach a wide number of consumers through our extensive distribution network. For our Beer and NAB Division, the strong dealership network ensures the availability of products throughout the Philippines. Dealers are provided systems and trainings related to dealer operations. Discounts are given to dealers on a fixed base instead of percentage of sales which ensure that the dealers maintain profit margins while creating a competitive advantage for us as the most preferred product. The Returnable Glass Bottle ("**RGB**") system allows our distributors to interact on a regular basis with our customers upon collection and return of the RGBs, further fortifying consumer relationship. A strong aspect of our distribution network is our perennial presence in *mom* and *pop* stores. These *mom* and *pop* stores are difficult for competitors to penetrate as they have limited capital and shelf space, and only carry brands that are fast-moving. Our distribution networks also organize dealers by assigned geographic areas ensuring the widest coverage of our products. For the Food Division specifically, efficiency is enhanced by having fewer but larger exclusive dealers for the Prepared and Packaged Food segment.

We have also pioneered the development of innovative formats to sell our food products, which has the benefit of growing the market by driving consumer preferences. Our Food Division introduced *Monterey Meatshops*, *Magnolia Chicken Stations*, *Treats* and *Kambal Pandesal* outlets as well as other distribution outlets to distribute our Food Division products. We established Great Food Solutions to manage sales to our key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

Our powerful consumer insights drive growth, innovation, and new product development

Our ability to successfully introduce new products by leveraging our extensive knowledge of consumer preferences, demographic and market trends, as well as our broad distribution channels, have allowed us to attain market leadership positions. Through our comprehensive reach and investment in market research and collaboration and feedback from our strong relationships with our customers, dealers and distributors, we are able to gain meaningful consumer insights, allowing us to anticipate changes in consumer demand and preferences.

We constantly engage in extensive research for updates on market trends and changes in consumer tastes. We identify market gaps and develop an optimum yet manageable new product pipeline. This promotes effective resource management and optimizes new product development ("**NPD**").

We continuously create market opportunities and pioneer new product variants to excite the market and address its ever-changing needs and preferences.

Cost efficiency initiatives and unique elements of business model driving strong profitability

We engage in a variety of initiatives to minimize raw material and other input costs. For example, the Beer and NAB Division employs the RGB system which, with over 90% retrieval in the past five years, provides a significant competitive advantage by allowing us to manage costs. The Spirits Division manages cost by purchasing raw materials such as sugarcane molasses and alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open market. We have engaged in successful initiatives such as aggressively promoting bottles recycling for the Spirits Division, with approximately 68% of glass bottles retrieved by and purchased from bottle suppliers for the year ended December 31, 2018 and 67% for the nine-month period ended September 30, 2019. The climate-controlled facilities used by the Food Division have improved yields and created conducive environment for healthy animal growth. The Food Division continuously explores alternative raw materials from grains and by-products used in our Animal Nutrition and Health segment as well as alternative protein sources and flavors for the Prepared and Packaged Food segment.

Furthermore, our efficient and modern production facilities drive efficiency. Our best-in-class technologies and processes applied to facilities across the Beer and NAB, Spirits and Food Divisions also help reduce wastage and maximize production yields. Most of our production facilities are fully automated, thereby ensuring consistent quality of products with minimal spoilage. The brewing production processes are regularly reviewed to optimize output and generate cost savings. Additionally, each of the Beer and NAB, Spirits and Food Divisions have their own R&D teams which regularly monitor and conduct tests to ensure that production processes are up-to-date with the relevant industry standards and that high-quality products will be sold at the least cost.

We believe that our vertically integrated facilities enable us to better manage raw material costs and extract margins along the entire food chain while ensuring superior food safety, traceability, and supply chain reliability and integrity. The Food Division's unique "farm-to-plate" business model allows us to derive synergies and extract margins along the entire food production and distribution process as it drives economies of scale from combined raw material sourcing, integrated production functions and shared sales, distribution, marketing and support functions. It also enhances operational flexibility to quickly adapt and augment our products to respond to market demand. Finally, cost efficiencies are also realized in unique aspects of our distribution chain. The Golden Bay Grain Terminal, which we own and which serves both feeds and flour operations, has facilitated the shipment of products through larger vessels thus minimizing intermediate handling and leakage, and resulting in lower freight and handling costs.

Highly experienced management team supported by the broader San Miguel Group and international partnerships

We operate with a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. Strong leadership and corporate values support low employee turnover with high engagement.

We provide various structured in-house and external training to our employees across all levels for their professional development which in turn provides our workforce with industry standard training and skills. For example, our San Miguel School of Brewing offers comprehensive programs covering all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel as brewmasters. Each of the Beer and NAB Division's more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience working for our beer division. The San Miguel Pure Foods University provides the Food Division employees with focused learning programs. Some of the schools launched under the university include the Leadership and Management School, Sales Academy, Finance School, Logistics School, Poultry & Livestock Slaughtering School, Feed Milling School, Animal Feed Science & Technology School, and Wheat & Flour Technology School. A highly specialized internal training program focusing on sensory skill development and critical processes of liquor manufacturing is also provided for employees of the Spirits Division. The rest of the employees of the divisions of SMFB likewise undergo professional training relevant to their work responsibility.

Our management team has been instrumental in the development, execution and management of an efficient and scalable platform and is dedicated to the sustainable growth of our businesses. We also benefit from the support of and have realized synergies from our relationship with the broader San Miguel Group. SMC's strong business reputation and experience in diverse consumer categories such as food, beverages, packaging, fuel and oil, power and infrastructure provide us with unparalleled macro-economic and consumer insights in the Philippines. For example, Petron Corporation's network of about 2,400 service stations all over the Philippines provides an effective distribution channel for retail sales for our food and beverage products. SMC's size and scale likewise provides substantial leverage and bargaining power with suppliers.

In addition, we have established strategic partnerships with globally renowned companies such as Kirin, Hormel Netherlands B.V., Thai Life Group of Companies, and recently with Jacobs Douwe Egberts. We believe that these partnerships have expanded our product offerings, resulted in synergies and sharing of best practices and underscore the capability of our management team.

Strategies

Our principal long-term goal is to further strengthen and solidify our position as the leading food and beverage company in the Philippines, and consistently expand our business to meet rapidly growing consumer demand. We aim to achieve this goal by implementing the following strategies:

Continued execution of regionally tailored strategies, leveraging on our unique understanding of our consumers

We continue to leverage our extensive knowledge of our consumers in executing regionally tailored strategies. The Philippine archipelago has three main regions of Luzon (including Greater Manila), Visayas and Mindanao, each with distinct macro and industry dynamics. We believe that our market-leading positions enable us to leverage differentiated consumer insights specific to each region and execute tailored strategies, thus enhancing our nationwide presence. We are well-positioned to benefit from the growing demand for food and beverage products as driven by sustained economic growth, expanding urbanization, favorable demographic patterns, and rapidly changing consumer tastes and preferences.

We will continue to respond and address emerging market trends and changes in consumer preferences in key cities and fast-growing areas to answer the market's demand for authentic experiences, "premiumization" and indulgence, convenience and value, among others.

Maintain our market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development

We plan to invest in tailored brand building and marketing campaigns as well as pursue targeted NPD strategies in each product category. Through this, we expect to further reinforce our leadership positions and grow the total addressable market.

We continue to pursue innovative consumer promotions and relevant, consistent and fresh campaigns, on-ground activations as well as occasion-creation programs to strengthen demand for each of our brands and to guard against competition.

We utilize multiple marketing media such as print, television, digital and radio advertisements, billboards, consumer and trade activations such as promotions targeting specific consumer segments or trade channels, sponsorship in major "*fiestas*" or local festivals and food fairs, and basketball team sponsorships. We hold nationwide and local trademark, signature events such as *San Miguel Oktoberfest*, *Red Horse Pambansang Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad (Taste of Summer)* summer program and the National Beer Drinking contest which we believe have all been successful in reinforcing brand awareness in key customer segments. For example, our *Red Horse Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines, bolstered the image and positioning of *Red Horse* and established its lead among Filipino rock music enthusiasts; our *San Mig Light Party All Night* event leverages the popularity of electronic dance music to promote awareness of our lower-calorie offering in the younger demographic as well as establish its leadership in the bar channel. Similarly, the Spirits Division also holds its own events such as the World Gin Day and *Ginumanfest* concert series in select provinces across the Philippines to further brand awareness and promote consumption. We plan to increase community events to achieve stronger regional brand recognition of our beverage products. For the Food Division, we launched Home Foodie in 2010, a three-minute cooking show featuring food discoveries using SMFB products. The Food Division also sponsors major food events such as Madrid Fusion in Manila and regional *KULINARYA* festivals which are implemented through our foodservice group, Great Food Solutions. Each of our Beer and NAB, Spirits and Food Divisions also sponsors a professional basketball team in the Philippine Basketball Association. We believe the basketball team sponsorships keep our brands top-of-mind, as basketball is one of the most popular and widely followed sports in the Philippines, while exemplifying time-honored values of dedication, cooperation and team pride.

We actively tap the digital platforms to promote awareness, trial and consumption of our brands and engage our customers through various social media platforms including Facebook, Instagram, YouTube, Twitter and Viber. Specific campaigns and relevant activations of brands are promoted online through online contests and *mom* and *pop* store promotions. We likewise lead conversations on social progressiveness through *San Mig Light* digital campaigns. We closely monitor our digital programs to determine their effectiveness through evaluating various metrics.

We place strong focus on new product rollouts that cater to changing consumer preferences and specific industry trends. Utilizing our extensive proprietary consumer data, we identify market opportunities in existing and adjacent categories and continuously evaluate the need to introduce new products and packaging innovations to capitalize on emerging market trends such as convenience, growth of new consumer segments, and health mindfulness. For example, we expect to increase the contribution of the increasingly popular "ready-to-eat" and "heat and serve" products to total food sales.

Continue to broaden our distribution footprint and enhance penetration across channels throughout the Philippines

We will sustain our strong growth momentum by broadening our outlet coverage through promotions and increased market penetration across all channels. Our sales force, together with our dealers and distributors, will put greater focus on serving diverse channels as the number of outlets grows across the Philippines.

We plan to improve our sales and distribution capabilities and increase nationwide penetration through product offerings tailored for each channel, and implementing innovative growth strategies. We aim to ensure and increase our presence in the growing modern trade channels, such as supermarkets and convenience stores in urban areas, by expanding our key accounts group, while simultaneously focusing on increasing visibility in selected on-premise outlets.

We continue to develop or tap emerging channels, increase market penetration and capture growth through digital platforms across Beer and NAB, Spirits and Food Divisions. To support our distribution programs, we will continue to further improve our logistics capabilities and infrastructure through warehouse expansions, additional sales offices, and truck and logistics center enhancement initiatives.

Capacity expansions to support growing consumer demand

Capacity expansion in key regional markets is a critical element of the growth strategy of SMFB to support increasing market demand nationwide, particularly in the provinces. In Luzon, SMFB is expanding production capacities in the beer and food businesses to keep pace with the growing market, as well as launching new product categories to address the consumers' growing demand and preference for convenience. It is also converting its existing beer production facility located in Sta. Rosa, Laguna to a full brewery facility to serve the growing requirements in South Luzon.

The Food Division has built four new feed mills. Two facilities are in Luzon, in Bataan and San Ildefonso, and both started commercial operations in 2019. Two other feed mills in Davao and Misamis Oriental are both undergoing commissioning. The Food Division has expanded its poultry breeder farm in Bataan and is constructing new poultry processing plants in Quezon and Davao. The construction of another flour mill located in Mabini, Batangas is also ongoing and this will be complemented by additional warehousing facilities. In April 2018, the Food Division started production in our new hotdog plant located in General Trias, Cavite. This is a new state-of-the-art facility located next to existing processed meats plant and aptly supported by cold and dry storage facilities.

In Visayas and Mindanao, SMFB plans to boost production capabilities as economic development in these regions accelerates demand for food and beverage products. A new beer production facility is being built in Tagoloan, Misamis Oriental to serve Northern Mindanao and adjacent areas and there are plans to construct a new grain terminal in Northern Mindanao to improve the shipping access of both raw materials for food manufacturing facilities and finished goods such as flour. SMFB is likewise in various stages of constructing a new poultry and fresh meat processing plant and three new feed mills in the Visayas-Mindanao region.

SMFB is expanding capacity through company-owned manufacturing facilities across all its businesses to better meet the growing demand and to maximize efficiencies through manufacturing technologies and innovation.

As of September 30, 2019, SMFB believes that the Spirits Division has sufficient capacity to meet growing demand.

Continued enhancement of profitability through cost saving initiatives

Through efficiency and process innovations, productivity enhancements, cost management measures and continuous product portfolio reviews, we are able to rationalize unprofitable products and enhance price stability of our revenue streams. In the Beer and NAB Division, we will continue to broaden our base of suppliers and materials through second supplier program, multi-continent sourcing, evaluation of alternative materials, and undertaking process optimization initiatives. In the Spirits Division, growth in profit margins can come from better operational efficiencies, improvement in second-hand bottle retrieval, higher alcohol yield and strategic sourcing of alternative raw material to complement or replace sugarcane molasses, which is the main input in gin production. In the Food Division, we continue to conduct initiatives that allow the use of alternative, lower-cost raw materials such as the use of cassava as a substitute for corn, a key ingredient in the production of animal feeds. The Food Division also utilizes climate-controlled housing system for hogs and broilers which improves cost efficiency by increasing production cycles per farm per year, improving feeds consumed to weight ratio and deriving better harvest recovery. These, together with selective breeding innovations have resulted in larger chicken size thereby further enhancing cost efficiency. Part of the cost improvement program is reducing freight and handling costs by strengthening logistics capabilities and infrastructure and optimizing the use of grains terminals, silos and warehouses. Through continued cost-efficiency initiatives, we believe that we will be able to sustain high profitability margins across divisions.

Leverage existing platform and brand equity in international markets for further growth

Our products are exported to approximately 60 countries and territories across the globe. We operate nine international production facilities across China, Hong Kong, Thailand, Vietnam and Indonesia. We plan to leverage our international network to export products across divisions to access fast-growing markets in Asia and the rest of the world. As one of the largest integrated food and beverage platforms in the Philippines, we believe that we are well-positioned to expand internationally and build our global brand equity to achieve incremental growth, as we carefully plan and implement such international expansion strategies.

For the Beer and NAB Division, our strategy is to further strengthen our performance in countries where we operate supported by key growth areas such as Indonesia and Thailand. In Thailand, we plan to capitalize on potential growth in new cities, expand in modern trade, increase the availability of draft products and introduce new products. In Indonesia and Vietnam, we plan to benefit from the recovery in the wholesaler channel, expand the modern trade channel distribution and improve our product portfolio. We expect beer exports to grow further in Asia, the Middle East, the U.S., Australia and our new markets in Europe and Africa.

Exploit synergies across our combined and diversified consumer platform

Through the consolidation of the Beer and NAB, Spirits and Food Divisions, we intend to establish a powerful consumer platform with the potential to capture both cost and revenue synergies.

Cost synergies

We believe that the consolidation of the food and beverage businesses under SMFB will result in greater economies of scale and scope while allowing for increased opportunities to share resources and take advantage of established relationships across the beer and NAB, spirits and food divisions. Sourcing synergies from centralized planning and procurement across business units will reduce purchasing costs. In addition, we will capitalize on our extensive and long-standing supplier relationships under each of the divisions to strengthen cooperation and coordination among the divisions. By utilizing strategically located production and distribution centers across the entire footprint, we have scope to reduce overall costs and better optimize logistics across the food and beverage businesses. We can likewise explore the integration and coordination of market research, management and marketing initiatives, and other support systems to reduce corporate overhead costs. As an integrated platform, we will constantly strive to improve our management and production efficiency while implementing international best practices.

Revenue synergies

With the combined food and beverage business having access to approximately 700,000 outlets covering all channels throughout the Philippines, there is increased scope for further coordination across the various product lines. Leveraging our extensive distribution network, we expect that new products will quickly reach the market while improving trade efficiencies and customer loyalty through enhanced trade and promotion activities for our existing product portfolio. The various divisions may likewise benefit from enhanced market data sharing where we can consolidate market and consumer insights for each of the businesses to identify consumer trends and preferences. This would ideally minimize execution risk in the introduction and penetration of regional specific products and initiatives. Utilizing market insight data, we can also identify cross-selling opportunities among the beer and NAB, spirits and food divisions.

SMFB's adoption of a new logo introduces the brand's promise of "Celebrating Life"

The new SMFB brings together a broad range of category-leading, powerhouse brands. Our company is based in the Philippines but our brands are known internationally, reaching over 60 export markets worldwide. Our products and brands fulfill a broad range of consumer needs —we quench thirst, provide taste, refreshment, nourishment, and reflect the lifestyles of our consumers.

The new SMFB logo highlights the distinct strengths and contributions of our three businesses while paying special homage to our parent company, SMC.

CORPORATE STRUCTURE AND SMFB CONSOLIDATION

On June 29, 2018, SMC approved and implemented the internal restructuring and consolidation of its Food and Beverage businesses under SMFB. As part of the SMFB Consolidation, SMC transferred all of its 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI (collectively, the "**Exchange Shares**") to SMFB. In consideration for the Exchange Shares, SMFB issued 4,242,549,130 new common shares to SMC (the "**New Shares**", the transfer of the Exchange Shares and the issue of the New Shares being the "**Share Swap**").

In order to implement the SMFB Consolidation, our Board of Directors approved the following resolutions on November 3, 2017: (a) amendments to our articles of incorporation to (i) expand our primary purpose to include the beverage business, (ii) change our corporate name from "San Miguel Pure Foods Company Inc." to "San Miguel Food and Beverage, Inc.", and (iii) reduce the par value of our common shares from ₱10.00 per common share to ₱1.00 per common share (the "**Stock Split**"); and (iv) deny pre-emptive rights for issuances of dispositions of all common shares (items (i), (ii), (iii) and (iv) herein being the "**Initial Amendments**"); (b) further amendments to our articles of incorporation following the SEC approval of the Initial Amendments to increase our authorized capital stock from ₱2,060,000,000.00 divided into 2,060,000,000 common shares with a par value of ₱1.00 per common share and 40,000,000 preferred shares with a par value ₱10.00 per preferred share to ₱12,000,000,000.00 divided into 11,600,000,000 common shares with a par value ₱1.00 per common share and 40,000,000 preferred shares with a par value ₱10.00 per preferred share (the "**Capital Increase**"); (c) the Share Swap; (d) if required, the conduct of a tender offer for the SMB and GSMI shares held by minority shareholders; and (e) the listing on the PSE of the additional shares resulting from the Stock Split and the issuance of the New Shares to SMC pursuant to the Share Swap.

On January 18, 2018, we obtained stockholders' approval for the above corporate actions and the SEC approved our application to effect the Initial Amendments on March 23, 2018. On April 5, 2018, we entered into a Deed of Exchange of Shares with SMC to implement the Share Swap (the "**Deed of Exchange**").

On June 29, 2018, the SEC approved our application for the Capital Increase and the Share Swap was promptly implemented as of the same date. Following the issuance of the New Shares from the Capital Increase as part of the Share Swap, the SMFB Consolidation was completed as of June 29, 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) for the tax-free transfer of the Exchange Shares to SMFB. 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 ₱85.00 per share.

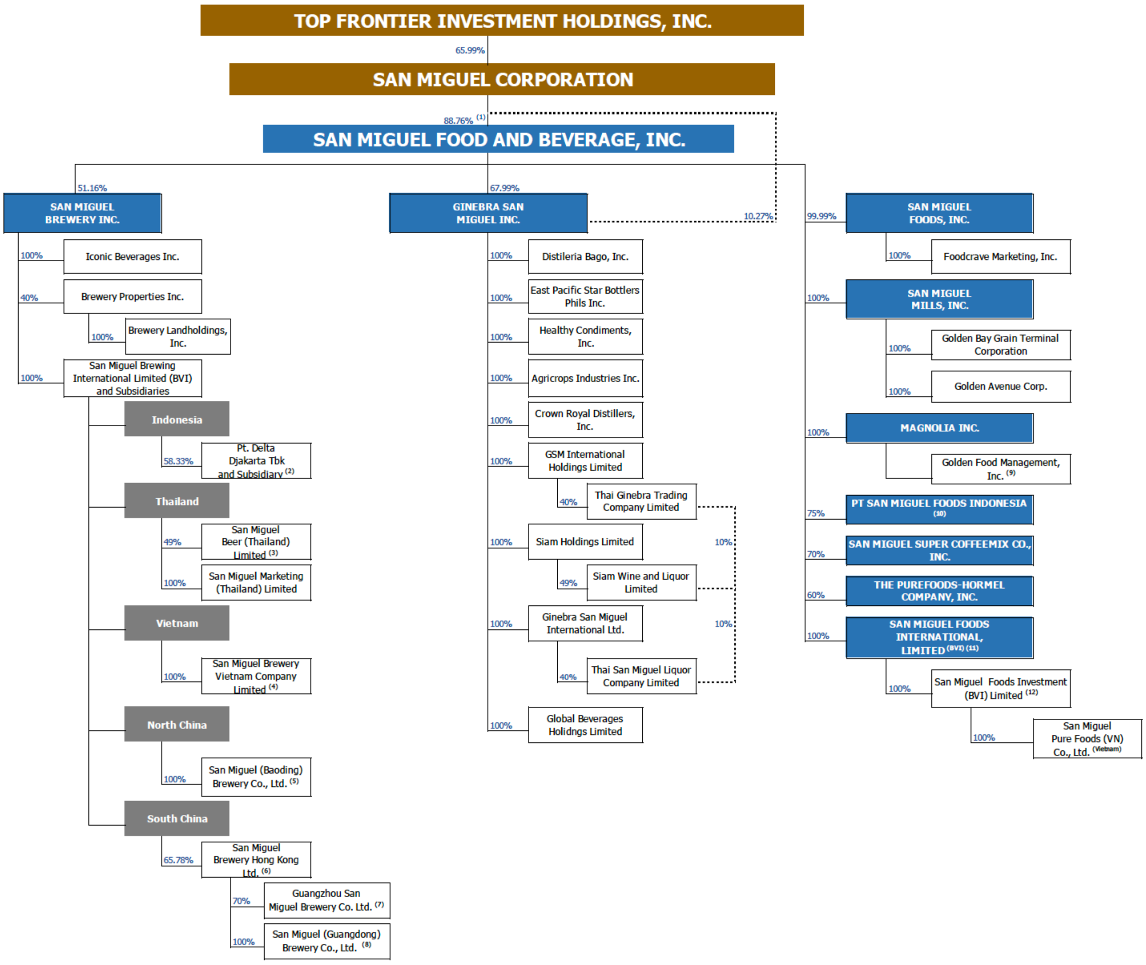
On November 5, 2018, the PSE issued a Notice of Approval for the listing of the New Shares issued by the SMFB to SMC. On November 9, 2018, the New Shares were listed on the PSE.

On November 12, 2018, the secondary offering of 400,940,590 common shares in SMFB plus the over-allotment option of 60,141,090 common shares in SMFB to be used for stabilization activities owned by SMC was sold at a price of ₱85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation.

On December 17, 2018, upon completion of the stabilization period, a total of 40,822,320 common shares were purchased by SMC. With the completion of the offering, SMFB is compliant with the minimum public float requirement of the PSE.

On November 12, 2018, SMC completed a secondary offer of 400,940,590 SMFB common shares with an over-allotment option of 60,141,090 SMFB common shares at an offer price of ₱85.00 per share (the "**Secondary Offer**"). The Secondary Offer was undertaken to allow SMFB to comply with the minimum public ownership requirement of the Philippine Stock Exchange. As disclosed in the Prospectus dated 25 October 2018 issued in relation to the Secondary Offer, SMC received all of the proceeds from the Secondary Offer and, accordingly, shouldered all the expenses relating to the same. SMFB did not receive any proceeds from the Secondary Offer.

The chart below provides an overview of our corporate structure following the SMFB Consolidation, including our major operating subsidiaries, directly and indirectly held, and businesses as of September 30, 2019.



Notes:
The structure includes the ultimate parent company, Top Frontier Investment Holdings, Inc. and the intermediate parent company, San Miguel Corporation.

(1) Excluding issued and outstanding series "2" preferred shares
(2) Owned thru San Miguel Malaysia (L) Pte. Ltd.
(3) Owned thru San Miguel Holdings (Thailand) Limited
(4) Owned thru Dragon Island Investments Limited and San Miguel (Vietnam) Limited
(5) Owned thru San Miguel Brewing International Limited and San Miguel (China) Investment Company Limited
(6) Owned thru Neptunia Corporation Limited
(7) Owned thru San Miguel (Guangdong) Limited (93%)
(8) Owned thru San Miguel Shunde Holdings Limited (92%)
(9) Formerly Golden Food & Dairy Creamery Corporation
(10) Formerly PT San Miguel Pure Foods Indonesia
(11) Formerly San Miguel Pure Foods International, Limited
(12) Formerly San Miguel Pure Foods Investment (BVI) Limited

BEVERAGE BUSINESS

Our beverage business consists of brewing, distilling, selling, marketing and distributing beer, non-alcoholic beverages and spirits. We conduct our beverage business through our majority-owned subsidiaries, SMB and its subsidiaries, which comprise our Beer and NAB Division, and GSMI and its subsidiaries, which comprise our Spirits Division. As of the date of this Prospectus, SMFB holds 51.16% and 67.99% of the outstanding common capital stock of SMB and GSMI, respectively.

SMB is the largest producer of beer in the Philippines and is the largest contributor to our beverage business, accounting for 83.9% and 82.9% of our total beverage business sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively. GSMI is a leading spirits producer in the Philippines and largest gin producer globally by volume, according to GlobalData, accounting for 16.1% and 17.1% of our total beverage business sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

Our beverage business had total sales of ₱115,716 million, ₱134,141 million, and ₱154,080 million for the years ended December 31, 2016, 2017, and 2018. For the nine-month period ended September 30, 2018 and 2019, we had total sales of ₱111,276 million and ₱125,313 million, respectively.

The following table sets forth our sales by division for the periods indicated:

	For the years ended December 31						For the nine-month period ended September 30			
	2016		2017		2018		2018		2019	
	₱	%	₱	%	₱	%	₱	%	₱	%
	(in millions, except for percentages)									
Sales(1)										
Beverage Business										
Beer and NAB Division.....	97,156	84.0	113,250	84.4	129,245	83.9	93,361	83.9	103,883	82.9
Spirits Division..................	18,560	16.0	20,891	15.6	24,835	16.1	17,915	16.1	21,430	17.1
Total……….…………….…	115,716	100.0	134,141	100.0	154,080	100.0	111,276	100.0	125,313	100.0

Note:
(1) Represents the external sales and excludes inter-division sales.

The following table sets forth our income from operations by division for the periods indicated:

	For the years ended December 31						For the nine-month period ended September 30			
	2016		2017		2018		2018		2019	
	₱	%	₱	%	₱	%	₱	%	₱	%
	(in millions, except for percentages)									
Operating Results(1)										
Beverage Business										
Beer and NAB Division…..	27,195	96.7	31,168	96.0	35,292	95.1	25,918	95.1	28,206	92.7
Spirits Division...................	917	3.3	1,307	4.0	1,832	4.9	1,328	4.9	2,209	7.3
Total………………………	28,112	100.0	32,475	100.0	37,124	100.0	27,246	100.0	30,415	100.0

Note:
(1) Operating results is determined by deducting selling and administrative expenses from gross profit.

Beer and NAB Division

We are the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets, with a total domestic market share of approximately 94.2% in 2018, according to GlobalData. According to the same source, our beer brands include the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen, Red Horse, San Mig Light* and *Gold Eagle.* The Beer and NAB Division also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice and carbonates. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 129 years and was first produced by *La Fabrica de Cerveza de San Miguel*, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC.

In 2009, Kirin acquired a 48.39% shareholding in SMB, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer and purchase from public shareholders. SMC retained majority ownership of SMB with shareholding of 51.0%. In connection with Kirin's investment in SMB, Kirin and SMC entered into a shareholders' agreement providing for, among others, corporate governance and approvals, cooperation in the conduct of the business, restrictions on the transfer of SMB shares and other customary arrangements. SMFB adhered to the shareholders' agreement with Kirin and agreed to be bound by the same terms and conditions as a party to the said shareholders' agreement. As of the date of this Prospectus, SMFB owns 51.2% and Kirin owns 48.5% of SMB.

In 2015, SMB acquired the NAB business from GSMI, which acquisition includes property, plant and equipment, finished good inventories, and other inventories comprising containers on hand, packaging materials, goods-in-process and raw materials used in the NAB business. The acquisition is in line with the multi-beverage strategy of SMB that seeks to expand its product portfolio in the non-alcoholic beverage market, among others. This transfer will also benefit from SMB's RGB system, strong distribution network and competitive positioning.

The Beer and NAB Division operates six production facilities that are strategically located across the Philippines with an aggregate production capacity of 18.8 million HL/year. International operations are conducted through SMB's wholly-owned subsidiary, San Miguel Brewing International Limited ("**SMBIL**"), which in turn has production facilities located in six sites outside the Philippines (two in China, and one production facility each in Hong Kong, Indonesia, Thailand and Vietnam) with an aggregate production capacity of 7.9 million HL/year. In total, the Beer and NAB Division's beer production capacity is 26.7 million HL/year. In addition to producing the core *San Miguel* beer brands marketed internationally, the international operations also produce local brands such as *Blue Star*, *Anker* and *Dragon,* which are local brands in various jurisdictions. Beer products are exported to almost 60 countries and territories across the globe. International operations accounted for 9.5% and 9.7% of the total sales of the Beer and NAB Division for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

The table below sets forth the sales by volume of the Beer and NAB Division for the periods indicated:

	For the years ended December 31			**For the nine-month period ended September 30**	
	2016	**2017**	**2018**	**2018**	**2019**
Beer (in million equivalent cases)…………	230.4	259.7	284.6	206.2	221.9
NAB (in million physical cases)..................	4.4	5.3	4.0	3.1	1.3

For the years ended December 31, 2016, 2017 and 2018, sales of the Beer and NAB Division were ₱97,156 million, ₱113,250 million, and ₱129,245 million, respectively, and net income was ₱17,665 million, ₱20,718 million, and ₱23,843 million, respectively.

For the nine-month period ended September 30, 2018, the Beer and NAB Division had sales of ₱93,361 million and net income of ₱17,768 million compared to sales of ₱103,883 million and net income of ₱19,841 million for the nine-month period ended September 30, 2019.

Products and Brands

In the Philippines, we believe that beer has become synonymous with *San Miguel*, a brand associated with quality products for over 130 years. In particular, we believe that Filipinos readily associate beer with a *San Miguel* product that embodies the attributes and values they look for in their beverage.

We consider the strong brand associations and imagery of *San Miguel* to be important selling points for our beer products. We believe that our Beer and NAB Division has differentiated its product offerings through effective marketing programs and that its diverse beer offerings ensure that there is a *San Miguel* product that caters to each consumer's specific tastes and preferences.

Beer products are marketed under the following brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Flavored Beer, San Miguel Super Dry*, *San Miguel Premium All-Malt, Cerveza Negra*, *San Mig Zero* and *Gold Eagle*. The Beer and NAB Division is also the exclusive distributor of *Kirin Ichiban* in the Philippines. The Beer and NAB Division's non-alcoholic beverage portfolio includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit Drink* (ready-to-drink juice), *San Mig Cola* (carbonates) as well as *Cali*, a sparkling malt-based non-alcoholic drink. As of September 30, 2019, 31 SKUs of beer and 14 SKUs of non-alcoholic beverages are produced by the domestic operations of the Beer and NAB Division.

The Beer and NAB Division categorizes products into four segments: (1) Premium, (2) Mainstream, (3) Economy, and (4) Non-Alcoholic. The Premium beer products cater to upscale markets specifically in highly urbanized areas, while beer products in our Mainstream segment serves the majority of the population or the mass market. The Economy segment caters to the low-end beer consuming market.

The following table sets forth a brief description of the principal products in our domestic Beer and NAB Division, organized by segment:

Segment	Brand / Product	Description	Packaging
Premium		*San Miguel Super Dry* is the first dry beer in the Philippine market. It is known for the strong impression of its aromatic hop: light to medium body and accompanied by a bitterness that is just right. ABV: 5% Ranked #1 in 2017 among Premium beers in the market, according to GlobalData.	330ml bottle 330ml can 15L Keg
Premium		*San Miguel Premium All-Malt* has a malty flavor with pleasant hoppy notes. It is full-flavored with a smooth balanced bitterness that is just right. It is slightly sweetish in taste and has medium to full body. ABV: 5%	330ml bottle 330ml can 15L Keg
Premium		*Cerveza Negra* is a full-bodied dark lager with a balance of moderate bitterness and sweetish roasted malt bouquets. ABV: 5%	330ml bottle 15L Keg
Premium		*Premium Kirin Ichiban* (distributed under license from Kirin) is brewed only from the first press of the wort which gives its unique taste and flavor. ABV: 5%	330ml bottle 330ml can

Mainstream

Mainstream Red Horse Beer has a distinctive, full flavored taste and extra satisfying strength of a world class premium strong beer.

ABV: 6.9%

Ranked #1 in 2017 among Mainstream beers in the market, according to GlobalData.

330ml/ 500ml/ 1000ml bottle
330 ml can

Mainstream

San Miguel Pale Pilsen is a pale golden lager with a clean, hoppy finish. It has a medium body, with a distinct bitter hop character.

ABV: 5%

Ranked #2 in 2017 among Mainstream beers in the market, according to GlobalData.

320ml/ 330ml/ 1000ml bottle
330ml can, 30L and 50L kegs

Mainstream

San Mig Light is the first light/low-calorie beer in the market.

ABV: 5%

Ranked #3 in 2017 among Mainstream beers in the market, according to GlobalData.

330ml bottle
330ml can, 30L and 50L kegs

Mainstream

San Mig Zero is the first of its kind in the Philippine market – formulated and brewed to offer the lowest calories (only 60 calories), the lowest carbohydrate content and zero sugar content, while still offering the refreshing taste of beer.

ABV: 3%

330ml bottle

Mainstream		*San Miguel Flavored Beer* is the first fruit flavored alcoholic malt beverage in the country and comes in apple and lemon flavors. ABV: 3%	330ml bottle 330 ml can
Economy		*Gold Eagle* has a pale amber hue and is moderately light-bodied. It is brewed to have an "easy-drinking" character. ABV: 4.5% Ranked #1 in 2017 among Economy beers in the market, according to GlobalData.	320ml/ 1000ml bottle
Non-Alcoholic/Mainstream		*Cali* is a line of clear, non-alcoholic malt-based beverages with fruit flavors and slight effervescence. Cali has three variants: Cali Classic Sparkling Pineapple Drink, Cali Ice Apple and Cali Light (low-calorie).	330ml bottle 330 ml can
Non-Alcoholic/Mainstream		*Magnolia Health Tea* is a flavored tea drink with anti-oxidants that help boost energy and comes in apple, lemon and strawberry flavors.	250ml bottle
Non-Alcoholic/Mainstream		*Magnolia Fruit Drink* is a non-carbonated flavored ready-to-drink juice drink packed with vitamins that give you an added boost of energy. It comes in grape and orange flavors.	250ml bottle

Non-Alcoholic/Mainstream		*San Mig Cola* is a delicious carbonated cola flavored soft drink that delivers refreshing satisfaction at a price that is refreshingly affordable.	250ml bottle
Non-Alcoholic/Premium		*Agua Prima Still and Sparkling* is a quality premium flavored water in 100% recyclable packaging that indulges consumers with its zesty lemon flavor. It is sugar free and no artificial ingredients that will uplift consumers' taste buds and health.	330ml bottle 330 ml can

Through SMBIL, we offer the *San Miguel Pale Pilsen* and *San Mig Light* brands in Hong Kong, China, Thailand, Vietnam, Indonesia and most markets where we export our beer products, *Red Horse* in Thailand, China, Hong Kong, Vietnam and selected export markets, and *Cerveza Negra* in Hong Kong, China, Vietnam, Indonesia, U.S., Thailand, South Korea and Taiwan. We also offer the following locally available brands: *Valor* (Hong Kong and China), *Blue Ice* (Hong Kong), *Dragon* and *Guang's* (South China), *Blue Star* (North China), *W1N Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

Over the years, our beer products have received numerous international awards for product quality and excellence. *San Miguel* beer brands are consistent Monde Selection winners. Monde Selection is an international institute based in Belgium founded in 1961 which evaluates, tests and awards consumer products with its quality label. We consider "Monde Selection" an exceptional advertising asset and serves as a recognized quality assurance for consumers. Since 2000, *San Miguel* beers have received an aggregate of 270 grand gold, gold, silver and bronze medals including 45 trophies and awards from Monde Selection. The latest awards in 2017 included gold medals for *Super Dry*, *Cerveza Negra*, *San Mig Light*, *Red Horse* and *Anker* and silver medals for *San Miguel Premium All Malt*, *San Miguel Pale Pilsen* and *San Mig Light*.

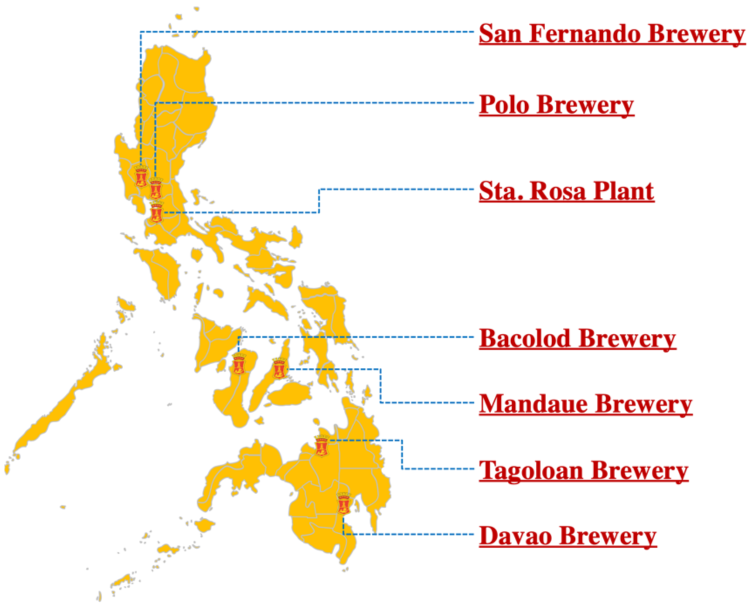
Production Facilities and Raw Materials

Production Facilities — Domestic Operations

The Beer and NAB Division maintains a network of production facilities rather than one central consolidated brewing and production facility. Currently, the Beer and NAB Division owns and operates six production facilities in the Philippines located in each of the three main island groups of Luzon, Visayas and Mindanao, namely: (1) the Polo facility located in the National Capital Region and established in 1947; (2) the Sta. Rosa facility located in Laguna Province and established in 2011; (3) the San Fernando facility located in Pampanga Province and established in 1981; (4) the Mandaue facility located in Cebu Province and established in 1968; (5) the Bacolod facility located in Negros Province and established in 1990; and (6) the Davao facility located in Davao Province and established in 1995. The domestic production facilities have a total production capacity of 18.8 million HL/year as of September 30, 2019. The capital expenditures may change as projects are reviewed, or contracts are entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the operating performance and cash flow of the Beer and NAB Division and its ability to obtain financing on terms satisfactory to management. The Sta. Rosa facility also completed an additional packaging line in the fourth quarter of 2018, while its brewing facility is aimed for completion by the first quarter of 2020. Similarly, a new brewery in Tagoloan, Misamis Oriental that was completed in the fourth quarter of 2019 is expected to commence commercial operations in early 2020, pending regulatory approvals. While production at each production facility is typically targeted to serve the surrounding geographical area, the Beer and NAB Division can shift production from one production facility to another if operational issues or demand changes require it.

For the years ended December 31, 2016, 2017 and 2018, the Beer and NAB Division incurred capital expenditures in the amounts of ₱1,218 million, ₱1,747 million, and ₱5,230 million, respectively.

SMB Existing and New Production Facilities



The Beer and NAB Division employs brewing equipment and technology sourced from leading manufacturers in Germany, the U.S., Japan and Italy. These include modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the production facilities is equipped with automated machines and equipment capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All the production facilities are compliant with certain ISO requirements such as the ISO 9001:2015 and ISO 14001:2015, as assessed by its pool of technical assessors and are also certified by the Food Development Center, an office under the Philippine National Food Authority, as compliant to food safety requirements of current GMP–HACCP.

Production Facilities — International Operations

The Beer and NAB Division owns and operates six production facilities outside of the Philippines – two in China and one each in Hong Kong, Indonesia, Thailand and Vietnam, with an aggregate production capacity of 7.9 million HL/year, as of September 30, 2019.

The two facilities in China are located in Baoding City, Hebei Province and Longjiang Town, Shunde District in Guangdong Province and were established in 1994 and 1996, respectively. The Hong Kong facility is located in Yuen Long, Hong Kong and was established in 1996. The Indonesian facility is located in Bekasi Timur, Indonesia and was established in 1993. The Vietnamese facility is located in Khanh Hoa Province, Vietnam and was established in 1995. The Thailand facility is located in Pathum Thani, Thailand and was established in 2004.

Raw Materials

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts can also be used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit juice concentrates, tea extract, flavors, colorants and vitamins. All of these commodities have experienced, and may experience, price fluctuations. The Beer and NAB Division sources its key raw materials for its beer using a set of standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts such as corn and sugar, which are sourced domestically, and imported tapioca. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

Terms with key raw material suppliers provide for a supply period of approximately one year to five years with a pre-determined fixed and formula-based price for the duration of the supply relationship. In addition, depending on considerations such as price trends and the quality of raw materials, spot purchases are made in the open market. To ensure the quality of its products, the Beer and NAB Division closely monitors the quality of its raw materials.

Packaging materials are sourced primarily from the San Miguel Yamamura Packaging Corporation ("**SMYPC**"), Can Asia, Inc., and San Miguel Yamamura Asia Corporation (the "**Packaging Group**"). SMYPC is a 65% owned subsidiary of SMC (with 35% owned by Nihon Yamamura Glass Co., Ltd.) and the major source of packaging requirements of SMC's business units. SMYPC is one of the largest and leading packaging companies in the Philippines, engaged in the manufacture and sale of glass, metal, paper, flexibles, plastics, and other packaging products. Packaging costs are also a significant factor in the manufacture of beer. We sell most of our beer products in RGBs of varying sizes and shapes, as well as aluminum cans and kegs. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, over 90% of the RGBs used for beer were retrieved, which we believe is the most important and popular packaging for beer in the Philippines. SMB's efficient RGB system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps in management of cost. The durable nature of the RGBs and plastic crates results in an average usage of approximately 40 to 60 cycles over a span of approximately five (5) to ten (10) years. Retail outlets selling SMB's products collect deposits on these bottles when customers buy the beer. For bottles returned, the corresponding deposit is refunded to the customer. New glass bottles and plastic crates are also purchased to support increasing sales and to replace broken and scuffed bottles.

Beer in aluminum cans are less popular mainly because they are more expensive, although the volume of this package has been increasing in recent years with greater availability and the expansion of modern trade. Kegs for draft beer, which come in 15, 30 and 50 liter sizes, are very limited.

Deep wells provide the water supply needed for production in domestic production facilities, except for water used at the Polo Brewery, which is supplied by water utility service providers in the Philippines. For international operations, water is sourced through deep wells, water utility service providers or government-owned water facilities.

Sales and Distribution

Domestic Market

The Beer and NAB Division markets, sells and distributes its products principally in the Philippines and maintains an extensive distribution system, which encompasses the six strategically located production facilities across the country, a broad network of sales offices and warehouses supported by dealerships and third-party service providers.

The strategic locations of the production facilities reduce overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country and help ensure that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the six production facilities by contract haulers and, in certain circumstances, by a fleet of boats, to retailers and consumers generally within five to seven days from production, ensuring quality and sufficient stocks wherever and whenever *San Miguel* beer products are needed. As of September 30, 2019, products of the Beer and NAB Division are distributed and sold at over 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, *mom* and *pop* stores and convenience stores accounting for 92% of total outlets and on-premise outlets such as bars, restaurants and hotels accounting for 8% of total outlets through over 50 sales offices and approximately 500 dealers throughout the Philippines.

For distribution efficiency, the Beer and NAB Division works closely with dealers and provides assistance such as systems and trainings related to dealer operations. The Beer and NAB Division enters into distribution agreements with its dealers that specify the territory in which each dealer is permitted to sell products, the brands that the dealer is permitted to sell, the performance standards as applicable, procedures to be followed and circumstances upon which distribution rights may be terminated. Distribution rights, performance standards and sales procedures are developed by the Beer and NAB Division and implemented in tandem with dealers to ensure high quality of services. The extensive dealer network and efficient distribution system and also support the high return rate of the Beer and NAB's RGB system. See "—*Production Facilities and Raw Materials—Raw Materials*."

The Beer and NAB Division has also formed a key accounts group to handle accounts management and business development of modern trade accounts such as supermarkets and convenience stores, and to increase visibility in selected on-premise outlets. As of September 30, 2019, the Beer and NAB Division, together with its dealers and account specialists, had a sales force of approximately 1,800 in the Philippines. The Beer and NAB Division continues to implement programs to strengthen its sales capabilities and systems.

SMB also operates a delivery service in Metro Manila and selected cities through its "632-BEER" (632-2337) hotline delivery program that allows customers to place orders by calling, text messaging or ordering online (www.smbdelivers.com). The delivery service taps into emerging segments such as consumers located at home or in other private spaces that prefer to directly place orders for beer.

International Market

International operations are conducted in Hong Kong, Indonesia, Thailand, China and Vietnam through SMBIL, a subsidiary of SMB. Subsidiaries of SMBIL include San Miguel Brewery Hong Kong Limited, which is listed on The Stock Exchange of Hong Kong Limited under stock code 236 and PT Delta Djakarta Tbk, which is listed on the Indonesia Stock Exchange under DLTA.JK.

There are two production facilities in China and one production facility located in each of Indonesia, Vietnam, Thailand and Hong Kong, with an aggregate capacity of approximately 7.9 million HL/year. Third party service providers transport the products produced from these production facilities to customers, consisting of dealers, wholesalers, retail chains, or outlets, depending on the market. A total sales force of approximately 460 employees are maintained in these five countries with 12 sales regions in China, six in Indonesia and Thailand and four in Vietnam. In Thailand, all local sales are done through San Miguel Marketing (Thailand) Limited, a subsidiary of SMBIL.

In addition, SMBIL exports beer products to approximately 60 countries and territories globally in North America, South America, Europe, Africa, the Middle East, Australia and the rest of Asia. Exports are sold under various beer brands as well as under private labels. International operations accounted for 9.5% and 9.7% of the Beer and NAB Division's total sales for the year ended December 31, 2018 and the nine-month period ended September 30, 2019, respectively.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the San Miguel brand for beer in certain Western European and Mediterranean countries and is not affiliated with either SMB or SMC.

Research and Development

The Beer and NAB Division employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence.

Technology and processes are constantly updated and NPD is ensured through the research and development of beer and NAB products. R&D activities are conducted in a technical center and pilot plant located in one of its production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and NAB product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025:2005. To promote technical manpower development, the Beer and NAB Division runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience with SMB.

The Beer and NAB Division continues to pursue innovation to support growth and market leadership. New products and variants are explored and attuned to the evolving consumer profile and preferences. For example, in 2010, the NPD team formulated the first flavored beer in the market which is the *San Miguel Flavored Beer* in apple and lemon flavors to appeal to younger drinkers. *San Miguel Flavored Beer* has been posting strong growth since its launch.

For the years ended December 31, 2016, 2017, and 2018 the Beer and NAB Division spent ₱81 million, ₱115 million, and ₱ 123 million on R&D activities, representing 0.08%, 0.10%, and 0.09% of sales for the same periods, respectively.

Marketing

The Beer and NAB Division actively pursues marketing initiatives to promote new products, as well as to maintain and enhance brand awareness of existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, the conduct of various consumer and trade promotions and merchandising activities. Various channels such as television, radio, print and digital platforms are tapped to reach targeted segments. The Beer and NAB Division also utilizes outdoor billboards and posters in off-premise retail outlets, restaurants, bars and other on-premise outlets.

The Beer and NAB Division holds nationwide trademark, signature events and sponsors numerous other events. *San Miguel Beer Oktoberfest* has been the brand's flagship event for over three decades. This beer festival takes place at numerous locations across the Philippines, offers beer and features popular bands, celebrities, games and raffle promos. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition, to gather the best beer drinkers in the Philippines. SMB also holds *San Miguel Pale Pilsen*'s nationwide *Sarap Mag Babad* or *Taste of Summer* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines. For *San Mig Light*, SMB conducts electronic dance music-related initiatives such as *Party All Night* and *DJ Spin-Off* events. Aimed at younger drinkers, *San Miguel Flavored Beer* has a school fair event known as *SMFBU Fun Fair ng Barkada or Fun Fair with Friends*. Finally, digital placements and targeted visibility program are conducted in upscale outlets to promote specialty brands such as *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

In the Philippine beer market, the major competitor for beer products is AB Heineken Philippines, Inc. ("**ABHP**"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc. and Heineken International B.V. ABHP offers a portfolio of local beers, foreign beers, some of which are produced under license from foreign brewers, and alcomix beverage products.

ABHP competes mainly through licensed Colt 45, a strong alcohol brand which is positioned against SMB's strong alcohol beer *Red Horse*, and local Beer na Beer in the economy segment and Brew Kettle in the mainstream segment. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started marketing and selling imported Heineken beer and Tiger beer in the country, competing with SMB's premium and mainstream brands, respectively.

ABHP also offers Tanduay Ice, which is a line of alcopop beverages positioned similar to beer. Competition from imported beers and local craft beers is minimal. These products comprise a small portion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities.

Our beer products also compete with other alcoholic beverages, primarily brandy, gin, rum and alcopops which are close substitutes to beer. In the beer industry—and more generally the alcoholic beverage industry—competitive factors usually include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. We believe that the market leadership, size and scale of operations, and extensive distribution network in the Philippines provide our Beer and NAB Division with significant competitive advantages in the Philippines.

In the non-alcoholic beverage market, competition is from established players and brands in ready-to-drink juice and ready-to-drink tea. For example, Zest-O, Tropicana Twister and C2 compete with *Magnolia Fruit Drink*, while Lipton and Nature's Spring Iced Tea compete with *Magnolia Healthtea.*

In its main international markets, our beer products contend with both foreign and local beer brands, such as Blue

Girl (Hong Kong), Carlsberg (Hong Kong, Thailand and Vietnam), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong and China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser (Hong Kong and China) Snow (China), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

Taxation

In the Philippines, excise tax represents a significant component of beer production costs. The Tax Code provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the BIR requires establishments subject to such taxes such as the Company to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Tax Code, excise tax on fermented liquor is determined per liter of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB's production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per liter on all fermented liquors, except those affected by the "no downward classification clause", which was a change from the two-tier tax structure imposed in 2013. Several of SMB's products were affected by the "no downward reclassification" clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2020, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Philippine Tax Code and sets additional excise tax on alcoholic beverages. Effective January 1, 2020, the new excise tax rates for fermented liquor is P35.00 per liter. The excise tax then increases to ₱37.00 per liter in 2021, ₱39.00 per liter in 2022, ₱41.00 per liter in 2023, and ₱43.00 per liter in 2024. Effective January 1, 2025, the excise tax rate shall be increased by 6% every year thereafter.

For distilled spirits, an additional ad valorem tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the ad valorem tax, a specific tax at the following rates shall be collected: ₱42.00 per proof liter effective January 1, 2020, ₱47.00 per proof liter in 2021, ₱52.00 per proof liter in 2022, ₱59.00 per proof liter in 2023, and ₱66.00 per proof liter in 2024. The specific tax will be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

The Beer and NAB Division's beer products are also subject to excise tax in the markets in which the international subsidiaries operate.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights used by the Beer and NAB Division in respect of its beer and malt-based beverage products (including *Cali*) are either registered or pending registration in the name of Iconic Beverages, Inc. ("**IBI**") in the Philippines. The brands, trademarks and patents used by the Beer and NAB Division in respect of its non-alcoholic beverage products (other than *Cali*) are licensed from SMC. Most of the brands, trademarks and other intellectual property rights used in its international operations are registered or pending registration in the name of SMBIL, with certain local brands in the name of SMBIL's subsidiaries in Hong Kong and Thailand. IBI and SMBIL are wholly-owned subsidiaries of SMB.

Quality Control, Health, Safety and Environmental Matters

The domestic operations of the Beer and NAB Division are subject to various regulations concerning health, safety and protection of the environment.

The FDA, an agency under the DOH, administers and enforces the law, and issues rules and circulars on safety and good quality supply of food, drug and cosmetic to consumers, as well as regulates the production, sale, and traffic of the same to protect the health of the people. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers which provide for the minimum operating standards, procedures and requirements in respect of the operations and facilities of establishments engaged in the manufacture, packing, repacking or holding of food products. The Consumer Act of the Philippines seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer, including means of redress in cases of violations of such rights. For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Beer and NAB Division is also subject to extensive environmental laws and regulations implemented by the DENR, including the Philippine Environmental Impact Statement System, which is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. An entity that undertakes any environmentally critical project or operates in any environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate ("**ECC**"). This ECC requirement applies to all production facilities. Other environmental laws and regulations applicable to domestic operations of the Beer and NAB Division include the Philippine Clean Water Act of 2004, the Philippine Clean Air Act, the Water Code, the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and the Biological Solid Management Act of 2000. See "*Regulatory and Environmental Matters—Environmental Matters*."

International operations are also regulated by various applicable laws in their respective markets including the regulations on food labeling in China and Hong Kong and environmental regulations, among others.

Spirits Division

Through GSMI, our Spirits Division is a leading spirits producer in the Philippines and the largest gin producer internationally by volume, according to GlobalData. It is the market leader in gin and Chinese wine in the Philippines having a market share of 96.4% and 64.1%, respectively, as of September 30, 2019, according to The Nielsen Company. (Copyright © 2018, The Nielsen Company) GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and other spirits and enjoys 33.0% market share in spirits as of September 30, 2019, according to The Nielsen Company. (Copyright © 2018, The Nielsen Company) GSMI's calculation is based in part on data reported by The Nielsen Company through its Retail Index Service for the Wines & Spirits Category for the periods covering October 2018 to September 2019, for the Total Philippines market. (Copyright © 2018, The Nielsen Company)

The table below sets forth the sales by volume of the Spirits Division for the periods indicated:

	For the years ended December 31			For the nine-month period ended September 30	
	2016	2017	2018	2018	2019
Spirits (in million cases)………………	25.18	27.74	31.4	23.1	26.5

Ginebra traces its roots to a family-owned Spanish era distillery that introduced the *Ginebra San Miguel* brand in 1834. The distillery was then acquired by *La Tondeña Incorporada* in 1924, and thereafter by SMC in 1987 to form *La Tondeña Distillers, Inc*. In 2003, the company was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, GSMI's flagship brand, *Ginebra San Miguel*, contributed 88.8% and 87.4%, respectively, to GSMI's total sales.

The Spirits Division operates one distillery and five bottling plants in the Philippines with a combined annual distillation capacity of 80 million liters and bottling capacity of 63.3 million cases. Each case generally contains either 24 units of 350mL each or 12 units of 700mL each. The distillery of Distileria Bago, Inc. ("**DBI**"), which is a wholly-owned subsidiary of GSMI, is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines. Its distribution network has nationwide coverage reaching approximately 141,000 outlets across the archipelago through 91 dealer sites and 15 sales offices as of September 30, 2019.

GSMI is a public company listed on the PSE under the stock symbol "GSMI" and will continue to be listed following the Offering. The market capitalization of GSMI was ₱13,614 million, with a common share price of ₱48.50 as of October 31, 2019.

For the years ended December 31, 2016, 2017, and 2018, GSMI's sales were ₱18,560 million, ₱20,891 million, and ₱24,835 million, respectively, and for the years ended December 31, 2016, 2017, and 2018, the net income was ₱361 million and ₱602 million, and ₱1,053 million, respectively.

For the nine-month period ended September 30, 2018, sales was ₱17,915 million and net income was ₱789 million compared to sales of ₱21,430 million and net income was ₱1,325 million for the nine-month period ended September 30, 2019.

Products and Brands

Our Spirits Division is one of the major players in the liquor market, given its diverse portfolio of products with core brands such as *Ginebra San Miguel* and *Vino Kulafu*, which continue to lead in the gin and Chinese wine categories, respectively, according to GlobalData.

The Spirits Division believes that consumer preferences in the Philippine spirits market vary significantly by geographical region. Consumers in Northern Philippines tend to prefer gin and brandy, while consumers in Southern Philippines tend to prefer rum and Chinese wine. In recent years, brandy has gained popularity in both the Northern and Southern parts of the Philippines. The Spirits Division capitalizes on the strength of its flagship brand *Ginebra San Miguel* and its wide range of products in expanding its business, particularly in the Southern part of the Philippines.

The following table sets forth a brief description of each of the principal products of the Spirits Division, organized by market segment which are (1) Mainstream and Economy; and (2) Value. The Mainstream and Economy segment serves the low-end liquor market and mass market. The Value segment caters to the mid-market.

Market Segment	Brand/Product	Description/Target Market
Mainstream and Economy		*Ginebra San Miguel* is the leading gin in the Philippine market. It is a Dutch- type gin with predominant flavor coming from juniper berries and selected essences from all over the world. Alcohol: 80-proof Ranked #1 in 2017 in the gin market, according to GlobalData
Mainstream and Economy		*GSM Blue* is a sugarcane alcohol blended with essences of juniper berries and other botanicals. Alcohol: 55-proof
Mainstream and Economy		*GSM Blue Flavors* is a mix of clear spirit and different flavors with a lighter alcohol content. Variants: • Mojito • Gin Pomelo • Margarita Alcohol: 35-proof

Value

Ginebra San Miguel Premium is made from an exquisite blend of botanical extracts and juniper berries, splashed with citrus and blended with high quality alcohol.

Alcohol: 70-proof

Mainstream and Economy

Vino Kulafu is a Chinese wine with 12 authentic Chinese botanical herbs.

Alcohol: 50-proof

Ranked #1 in 2017 in the Chinese wine market, according to GlobalData.

Mainstream and Economy

Primera Light Brandy is made from fine imported ingredients from Spain, blended with Solera Grand Reserva Brandy concentrate, and made smoother with a premium smooth blending process.

Alcohol: 55-proof

Mainstream and Economy

Añejo Gold Medium Rum is medium-proof rum infused with 12-year aged rum and imported alcohol.

Alcohol: 67.5 proof

Value

Antonov Vodka is a made from high-grade alcohol that undergoes quadruple distillation and charcoal filtration.

Alcohol: 80-proof

Value

Don Enrique Mixkila is made with distilled spirits and imported essences of tequila.

Alcohol: 80-proof

Our spirits products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum, Tondeña Manila Rum, Gran Matador Solera, Gran Reserva Brandy, Gran Matador Gold* and *Añejo Dark Rum 5 years*. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

Over the years, the Spirits Division has received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue, Ginebra San Miguel Premium Gin* and *Ginebra San Miguel,* and silver medals for *GSM Blue Flavors Mojito, Vino Kulafu* and *Primera Light Brandy*.

Production Facilities and Raw Materials

Production Facilities

The Spirits Division operates one distillery and five bottling plants. The distillery is strategically located in Negros Occidental Province, the largest molasses-producing region in the Philippines, and has a distillation capacity of 80.0 million liters per annum while the bottling plants are located across the archipelago with a total annual bottling capacity of 63.3 million cases.

The five bottling plants are located in Luzon and Visayas, namely: (1) the Cauayan plant located in Isabela Province and established in 2010; (2) the Sta. Barbara plant located in Pangasinan Province and established in 1992; (3) the Ligao plant located in Albay Province and established in 2010; (4) the Cabuyao plant located in Laguna Province and established in 1996; and (5) the Mandaue plant located in Cebu Province and established in 1964.

For the year ended December 31, 2016, 2017 and 2018, the Spirits Division incurred capital expenditures in the amounts of ₱382 million, ₱217 million, and ₱274 million, respectively.

The production facilities located in Sta. Barbara, Pangasinan; Cabuyao, Laguna; Mandaue City, Cebu; and Bago City, Negros Occidental are compliant with the requirements of ISO 9001:2015. As of the date of this Prospectus, the facilities located in Cauayan, Isabela and Ligao City, Albay are in the process of being certified.

Thai San Miguel Liquor Co. Ltd. ("**TSML**"), a joint venture of GSMI and Thai Life Group of Companies, has a production facility located in Kanchanaburi, Thailand with a 75 KLPD distillery column and a bottling line that has an annual production capacity of 22 million liters and six million cases, respectively.

Raw Materials

Alcohol is the main raw material used for spirits, which is made by converting sugarcane molasses to alcohol at the DBI distillery. To mitigate the impact of the increasing price *vis-à-vis* the foreseen decreasing availability of sugarcane molasses for use in the production of spirits, since it is also used as the main material in the Philippine government's clean fuel program, the Spirits Division, among others, directly purchases crude and GSMI-spec alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open markets. DBI also has a separate facility which can use cassava starch milk as an alternative raw material in the production of alcohol.

Products are packaged in glass bottles, the majority of which are sourced from the Packaging Group. In addition to using new glass bottles, the Spirits Division maintains a network of washed second-hand bottle suppliers in the Philippines. The suppliers retrieve, sort and wash *Ginebra San Miguel* glass bottles, which are bought back by GSMI to be recycled and reused. For the year ended December 31, 2018 and the nine-month period ended September 30, 2019, approximately 68% and 67% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers, respectively. A stringent quality control system is maintained to monitor procedures and address safety concerns in the use of recycled bottles. The Spirits Division believes that bottling costs for any particular product could be sustained over time with the continuous use of second-hand bottles. Thus, the Spirits Division has actively implemented programs to expand its network of second-hand bottle suppliers in the past three years.

Sales and Distribution

The Spirits Division primarily markets, sells and distributes its products in the Philippines to consumers through territorial distributorship made up of a network of 91 dealer sites and 15 sales offices strategically situated across the country as of September 30, 2019. The Spirits Division's sales team and key accounts group directly serves off-premise outlets such as *mom* and *pop* stores, supermarkets, grocery stores, and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels. Approximately 141,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 89% of total outlets and modern trade outlets, accounting for 11% of total outlets.

At the center of the product distribution and movement is the Spirits Division's logistics group. It spearheads the planning, coordination and delivery of finished goods from the different plants to various sales offices, warehouses, dealers, wholesalers and select retailers.

Direct shipments to dealer sites are made through third-party haulers while company-owned routing trucks deliver to directly-served outlets. To expand distribution coverage and supplement the Spirits Division's own logistical assets, it also engages third-party service providers to handle warehouse management and product delivery to various destination points. The turn-around time for the delivery of the products from the bottling plants to the dealer is four to seven days for in-land deliveries and nine to 14 days for off-shore deliveries.

While the Spirits Division has already established a good number of dealer sites throughout the country, one key distribution strategy is to continuously develop and acquire new dealers in areas with high volume potential, especially in the geographically segmented Southern Philippines. This strategy is anchored on the deployment of direct selling operations teams, who will focus on exploring and nurturing underserved areas until these become commercially feasible for an existing or new dealer to take-over. Initiatives have also been implemented, such as systems improvement, trainings, incentive programs, merchandising, postering and multiple localized below-the-line activities to sustain and ensure continuous growth in volume.

Research and Development

The Spirits Division continuously develops new products as it seeks to expand its existing product lines and maintains a well-equipped laboratory that provides capabilities to develop innovative product formulations as well as a dedicated technical group focused on NPD. In addition to the popular Mojito that is a variant of GSM Blue Flavors, which was launched in 2012, new variants Margarita and Gin Pomelo as well as new product *Añejo Gold Medium Rum* were developed and launched in 2017.

The *Añejo Gold Medium Rum* was introduced to address the market gap between strong and light spirits products and is geared towards the young adult market. This was specifically formulated to be 67.5% proof for moderate strength and is made from alcohol that has been aged in oak barrels for 12 years blended with high quality ingredients.

The R&D team also develops product formulations for certain toll manufacturing customers, such as the Don Papa Rum and all of its limited-edition variants. These are sold predominantly in Europe, North America, Australia, New Zealand and select Asian countries.

For the years ended December 31, 2016, 2017 and 2018, the Spirits Division spent ₱36 million, ₱42 million, and ₱52 million on R&D activities, representing 0.19%, 0.20%, and 0.21% of sales for the same periods, respectively.

Marketing

The Spirits Division is focused on growing its core gin products. Recent thematic campaigns such as the slogan "*Ginebra Ako*" aid in reinforcing the flagship brand *Ginebra San Miguel* as a leading gin brand in the market. Targeted product launches allow GSMI to capture new drinkers and markets. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the launch of several *GSM Blue Flavor* variants.

As the leading gin player, the *Ginebra San Miguel* brand spearheads the annual commemoration of World Gin Day, which is held in June. The local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide. There is also the widely anticipated GSMI calendar featuring a popular celebrity and "*Ginumanfest*", a concert series, that is hosted by GSMI to coincide with major provincial *fiestas* and in select barangays across the country.

The Spirits Division has a very popular professional basketball team, the *Barangay Ginebra San Miguel*, whose players are regularly used in its advertising campaigns. This nurtures a preference for the GSMI brands and products because of a strong affinity to the *Barangay Ginebra San Miguel* basketball team as basketball continues to be a well-loved and one of the most watched sport in the Philippines. Product advertisements are commonly streamed through television, radio, print and billboards. The Spirits Division has also explored new marketing channels, utilizing digital advertising, and sponsoring special events and consumer and trade promotions, to create a new generation of gin consumers.

Competition

In the Philippine spirits market, competition among the major players revolves around brand equity through above and below the line advertising activities, price leadership, NPD, raw material security, production efficiency and distribution. GSMI's major competitor for spirits products are Emperador Distillers, Inc. and Tanduay Distillers Inc. The former is largely known for its Emperador Light Brandy which is popular among the young working class in Greater Manila and most urban cities. Tanduay Distillers, Inc.'s Tanduay Rhum Dark Five Years is a staple hard liquor drink in the Visayas and Mindanao region. Our *Ginebra San Miguel* is the preferred brand in northern and southern Luzon. As the Chinese wine segment has also seen an increase in consumption in recent years, the Spirits Division's *Vino Kulafu* has emerged as the top choice in this category according to GlobalData. Patronage mostly comes from various islands in the Visayas and parts of Mindanao.

Intellectual Property

The Spirits Division registers its trademarks, industrial design and copyright used or intended to be used in its products and business with, among others, to the Intellectual Property Office of the Philippines and equivalent authorities outside the Philippines. The Spirits Division also ensures that such registrations are maintained and promptly renewed, subject to relevant laws, rules and regulations.

All of Spirits Division's trademarks for its products sold in the Philippines and in the relevant foreign markets are either registered or have pending registration applications in its name or in the name of SMC. The Spirits Division's use of the SMC trademarks are duly authorized by SMC. The Spirits Division has also applied for registration or registered in its name, among others, the trademarks *Vino Kulafu* and *Primera Light* and label designs and bottles for *Ginebra San Miguel*, while the trademarks *GSM Blue, GSM Blue Flavors, Antonov Vodka* and *Don Enrique Mixkila* are registered in the name of SMC. The Spirits Division also has an industrial design registration for its bottle *Ginebra San Miguel* (round/bilog) and has existing copyright certificates of registration over certain pictorial illustrations and radio materials which were used for advertising *Vino Kulafu*.

Trademarks used by the Spirits Division are likewise registered in various countries including Thailand, the U.S., China, Canada, Hong Kong, India, Italy, Kuwait, New Zealand and Taiwan.

Quality Control, Health, Safety and Environmental Matters

The Spirits Division is compliant with applicable statutes and regulations on health, safety and environment and possesses the required permit and licenses to operate its production facilities.

Health and safety programs of the Spirits Division focus on creating a suitable working environment to ensure that its processes result in quality products and services. This suitable working environment is a combination of favorable human and physical factors such as social (e.g., calm, non-discriminatory and non-confrontational), psychological (e.g., stress-reducing, burn-out protection, emotionally protective), and physical (safe, ergonomic, temperature, heat, humidity, light, hygiene, noise and space) factors.

The Spirits Division, in compliance with the DOLE requirement, has established a safety committee headed by a safety officer for each of the Spirits Division production facilities, which is tasked to conduct job hazard analyses and near miss/incident/accident investigation, and regular site inspections. For each of the Spirits

Division production facilities, there is also a crisis committee tasked to immediately attend to civil disturbances and natural calamities and fire brigades for fire safety concerns.

All employees undergo annual physical and medical examinations. There are assigned nurses in every production shift, as well as medical doctors where needed. The Spirits Division production facilities also have their pool of first aid providers.

The Spirits Division's manufacturing group also conducts safety audits of the Spirits Division production facilities and recognition and awards are given to outstanding safe plants during the Spirits Division's annual Supply Chain Conference.

As for environmental management, the Spirits Division production facilities have waste water treatment facilities, air pollution abatement devices with CCTV monitors on smoke stacks, material recovery facilities for recycling packaging materials, and control system for hazardous wastes. The Spirits Division has commenced efforts to implement Environmental Management System based on ISO 14001:2015 standard and its production facilities also have self-monitoring activities for their respective environmental programs, which are reported to the DENR on a quarterly basis.

Food Division

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

The breadth of our Food Division ranges from branded value-added refrigerated meats and canned meats, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes and coffee and coffee-related products ("**Prepared and Packaged Food**") to integrated feeds **("Animal Nutrition and Health")** to poultry and fresh meats **("Protein")** as well as flour milling, grain terminal handling, foodservice, franchising and international operations ("**Others**").

The table below sets forth the sales volume for each segment of the Food Division for the periods indicated:

	For the years ended December 31			**For the nine month period ended September 30**	
Segment[(1)]	**2016**	**2017**	**2018**	**2018**	**2019**
			in thousand metric tons		
Prepared and Packaged Food[(2)]……….	182	195	219	153	161
Animal Nutrition and Health……...	1,171	1,205	1,302	984	944
Protein……………………………..	443	457	490	358	382

Notes:
(1) Includes inter-segment and inter-division sales volume.
(2) Excludes intra-segment sales volume.

For the years ended December 31, 2016, 2017, and 2018, sales for the Food Division amounted to ₱111,563 million, ₱117,448 million, and ₱132,298 million, respectively. For the nine-month period ended September 30, 2018 and 2019, sales for the Food Division amounted to to ₱95,344 million and ₱101,052 million, respectively.

For the years ended December 31, 2016, 2017, and 2018, operating results for the Food Division amounted ₱8,931 million, ₱9,926 million, and ₱8,826 million respectively. For the nine-month period ended September 30, 2018 and 2019, operating results for the Food Division amounted to ₱6,779 million and ₱3,209 million, respectively.

Products and Brands

The Food Division produces a wide range of food products. Its brand portfolio includes some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia, Monterey, Purefoods, Purefoods Tender Juicy, Star, Dari Crème, La Pacita, San Mig Super Coffee,* and *B-Meg*.

The discussion below presents the key operating subsidiaries, products, brands and services for each of the primary segments of the Food Division: Prepared and Packaged Food, Animal Nutrition and Health, Protein and Others.

Prepared and Packaged Food

The Prepared and Packaged Food segment includes refrigerated meats, canned meats, dairy, ice cream, spreads and oils, biscuits and coffee.

Key Brands

Canned Meats

Refrigerated Meats

Dairy, Spreads, Biscuits and Coffee

The major operating subsidiaries for the Prepared and Packaged Food segment are Purefoods-Hormel Company Inc. ("**Purefoods-Hormel**"), Magnolia Inc. and San Miguel Super Coffeemix Co., Inc. ("**SMSCCI**").

Purefoods-Hormel produces and markets value-added refrigerated processed meats and canned meat products and is a 60:40 joint venture with Hormel Netherlands, B.V. which we entered into in 1998. The joint venture agreement sets out the parties' agreement as shareholders of Purefoods-Hormel, including, among others, provisions on technical assistance and sharing of know-how, the use of trademarks, corporate governance and approvals, exclusivity with respect to the manufacture, sale, importation and distribution of Hormel products in the Philippines and restrictions on the transfer of Purefoods-Hormel shares.

Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods, Purefoods Tender Juicy, Star, Higante, Purefoods Beefies, Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods, Star* and *Ulam King* brands.

The dairy, spreads and biscuits business, primarily operated through Magnolia Inc., manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids, biscuits, flour mixes and cooking oils. Bread spreads include butter, refrigerated and non-refrigerated margarine and cheese sold primarily under the *Magnolia, Dari Crème, Star* and *Cheezee* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream under the *Magnolia* brand; jelly-based snacks are under the *Jellyace* brand, biscuits under the *La Pacita* brand, while flour mixes, salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand. Our margarine brands, *Star* and *Dari Crème*, established in 1931 and 1959 respectively, were acquired in the 1990s.

The coffee business under SMSCCI is a 70:30 joint venture between SMFB and a Singaporean partner, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte. Ltd. ("**SCCPL**"). In June 2017, Jacobs Douwe Egberts Holdings Asia NL B.V. ("**JDE**") acquired Jacobs Douwe Egberts HLD SGP Pte. Ltd., formerly Super Group Pte. Ltd., which, in turn, owns 100% of Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly SCCPL. JDE is a global coffee and tea company with presence in more than 120 countries and a key player in 28 countries across Europe, Latin America and Asia-Pacific. SMSCCI imports, packages, markets and distributes coffee mixes and coffee-related products in the Philippines.

In February 2015, the Food Division entered the biscuits category through the acquisition of the *La Pacita* brand from Felicisimo Martinez & Co., Inc. *La Pacita* products include crackers and cookies in various formats, which are distributed in the Philippines and exported to other countries.

Animal Nutrition and Health

The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines.

Key Brands

Integrated Feeds *Veterinary Medicines*

The operating subsidiary for the Animal Nutrition and Health segment is SMFI.

Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands such as *B-Meg*, *B-Meg Premium, Integra, Expert, Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry is comprised of three segments of feed users: (i) the commercial segment, which comprises small farms that purchase feeds from retail outlets supplied by commercial feed manufacturers, as well as medium-to-large farms that purchase directly from these manufacturers; (ii) the intra-segment, which comprises large, integrated livestock and poultry farms that operate their own feed mills; and (iii) the home-mix segment, which comprises small-to-medium farms producing their own feeds for self-use.

Protein

The Protein segment is in the business of poultry and fresh meats.

Key Brands

Poultry *Fresh Meats*

SMFI is also the operating subsidiary for the Protein segment.

The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. As of September 30, 2019, there were approximately 1,310 *Magnolia Chicken Stations* across the Philippines. The poultry business also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors and sells live chickens to dealers.

The fresh meats business breeds, grows and processes hogs and trades beef and pork products. Its operations include slaughtering live hogs and processing beef and pork carcasses into primal and sub-primal meat cuts. These specialty cuts and marinated products are sold in neighborhood meat shops under the well-recognized *Monterey* brand name. There were over 650 *Monterey Meatshops* across the Philippines as of September 30, 2019.

Others

Flour milling, premixes and baking ingredients, foodservice and franchising together with international operations, are categorized under Others. The bulk of this segment is accounted for by our flour milling business and grain terminal operation.

Key Brands

Flour Milling	*Premixes and Baking Ingredients*	*Franchising*	*International Operations*

The flour milling business operates under San Miguel Mills, Inc. ("**San Miguel Mills**"). San Miguel Mills owns Golden Bay Grain Terminal Corporation, which provides grain terminal, warehousing services and grain handling (e.g. unloading, storage, bagging, and outloading) services to clients, and Golden Avenue Corp., which holds investment in real property.

The flour milling business offers a variety of flour products that includes bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, *pan de sal* mix, and *puto* (or rice cake) mix. The business pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten in the Philippines for breakfast. Flour products are sold under 19 brand names which enjoy strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

In 2012, *Kambal Pandesal* bakery outlets were launched, an innovative concept that has simplified bakery operations for entrepreneurs by providing proprietary bread premixes that are easy to bake. The business likewise provides technical assistance such as site search and training on bakery operations and management, as well as continuous product development and marketing support. As of September 30, 2019, there were around 400 *Kambal Pandesal* bakery outlets which are third party-owned and operated.

The international operations of the Food Division are located in Indonesia and Vietnam. PT San Miguel Foods Indonesia (formerly PT Pure Foods Suba Indah) ("**PTSMFI**") is a 75:25 joint venture with PT Hero Intiputra of Indonesia. San Miguel Foods Investment (BVI) Limited, which operates San Miguel Pure Foods (Vn) Co., Ltd. ("**SMPFVN**") in Vietnam, is a wholly-owned subsidiary of San Miguel Foods International, Limited. Both PTSMFI and SMPFVN are in the business of production and marketing of processed meats which are sold under the *Farmhouse* and *Vida* brands in Indonesia and under the *Le Gourmet* brand in Vietnam.

The foodservice business of the Food Division is handled by Great Food Solutions, a group under SMFI. Great Food Solutions, which services institutional accounts such as hotels, restaurants, bakeshops, fast food and pizza chains, was established in 2002 and is one of the largest foodservice providers in the Philippines. It markets and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour and coffee businesses. In turn, Great Food Solutions receives a development fee from these businesses for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

The Food Division ventured into the franchising business to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. The franchise business, also a group under SMFI, follows a convenience store model under the *Treats* brand, most of which are located in Petron gasoline stations.

The Food Division is also in the process of expanding its *Chick'n Juicy* roasted and fried chicken outlets. It has opened close to 70 outlets to date some of which are also located in Petron gasoline stations.

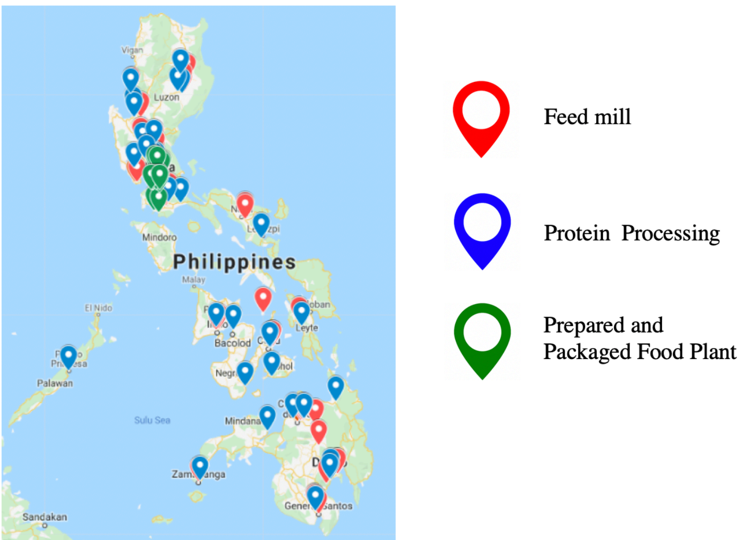
Production Facilities and Raw Materials

The Food Division uses both company-owned and third-party owned facilities for production purposes. As of September 30, 2019, facilities include 37 feed mills, 57 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas, and Mindanao.

The Food Division is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, except in respect of the coffee business as coffee mixes are provided solely by Super Coffeemix Manufacturing Ltd. (Thailand) Company **("SCML Thailand")**. The division believes that its operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

For the years ended December 31, 2016, 2017 and 2018, the Food Division incurred capital expenditures in the amounts of ₱6,467 million, ₱10,890 million and ₱8,496 million, respectively.

Food Division Manufacturing Facilities



Prepared and Packaged Food

Production Facilities

For our Prepared and Packaged Food segment, our production facilities are located in Luzon. Three production facilities are located in Cavite, two of which are for meat processing operations for the manufacture of hotdogs, nuggets, hams, bacon, sausages, meat toppings, and sauces. The third facility manufactures bread spread products through a process that includes pasteurization, blending, chilling and packing for bread spreads, and cooking, filling, pre-packing and end-packing for cheeses. Ice cream and biscuits are manufactured at company-owned facilities located in Sta. Rosa, Laguna and Antipolo City, respectively. Flour mixes under the *Magnolia* brand, on the other hand, are manufactured at company-owned facilities in Mabini, Batangas.

Milk, all-purpose cream, jelly-based snacks and cooking oil products are manufactured in third party-owned plants under tolling arrangements, all of which meet quality standards. Other toll-manufacturing agreements with *Halal*-accredited facilities are also maintained to augment its production capacity, meet periodic volume increases and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

Raw Materials

The primary raw materials used for refrigerated and canned meats are chicken, beef and pork primal cuts, most of which are sourced through the Business Procurement Group (the "**BPG**") of the Food Division, which strives to secure prices lower than prevailing market or published rates. The BPG maintains a pool of accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team.

All of the procurement, manufacturing and pre-packing of raw materials for coffee products are handled by SMSCCI's partner in Singapore and Thailand. Coffee mixes are imported through SCML Thailand while re-packing, marketing, selling and distribution are done in the Philippines.

Animal Nutrition and Health

Production Facilities

For the Animal Nutrition and Health segment, compound feeds are manufactured at 14 company-owned feed mills, seven of which are located in Luzon, three in Visayas and four in Mindanao, plus 23 third party-owned and operated feed plants located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds and two plants have extrusion capabilities to produce aquatic floating feeds. The feeds business also maintains tolling arrangements for eight rendering facilities that convert animal by-products used as raw materials into some feed types.

The Animal Health and Nutrition segment is building five new feed mills with an estimated capacity of approximately 1,500 thousand metric tons for the period 2018 to 2020, one of which will be equipped with capability to produce aquatic floating feeds. These will increase the Food Division's capacity for higher margin products and will help supply the Visayas-Mindanao region.

Raw Materials

The largest single cost component for feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. Corn is purchased locally from corn traders and occasionally from suppliers in the U.S., South America and Southeast Asia.

Prices of raw materials are subject to significant volatility due to extreme weather conditions, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rate fluctuations and other factors. See "*Risk Factors—Our financial performance may be materially and adversely affected by disruptions in the supply of, or price fluctuations in, major raw materials*." To minimize the adverse effects of unexpected price increases, the Food Division enters into hedging transactions and maintains strategic buying programs.

Protein

Production Facilities

For the Protein segment's poultry business, company-owned facilities include two poultry processing plants located in Cebu and Davao, two poultry hatcheries located in Laguna and Bukidnon, and one poultry breeder farm located in Bataan. All of these company-owned facilities are operated by third parties.

The poultry business primarily utilizes third party-owned facilities operated under tolling arrangements. As of September 30, 2019, all of the poultry growing output and 97% of processing output were from tolled facilities. Approximately 95% of these poultry growing facilities employ climate-controlled systems, which improve biosecurity and provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. Supporting its vertically controlled poultry operations are two company-owned processing plants, 31 processing plants operated under tolling arrangements and an extensive network of third-party cold storage warehouses and distribution facilities throughout the Philippines.

For the Protein segment's fresh meats business, company-owned facilities include two hog farms located in Bulacan and Bukidnon and a hog slaughterhouse in Cavite, which are all operated by third parties. The Protein segment maintains a vertically integrated operations, allowing the business to have control and oversight of the entire value chain from the selection of genetic stocks to growing and processing of hogs, to selling, mainly through the *Monterey Meatshop* network.

Hog raising operations use a two-site system which separates breeding from nursery and growing into isolated facilities to minimize the risk and spread of disease. As of September 30, 2019, more than 90% of the business' hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 60% of these employ climate-controlled as well as elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The Protein segment is building two poultry facilities capable of processing approximately 65 million heads for the period 2019 to 2021. Two new fresh meat processing plants are planned to be located in Luzon.

Raw Materials

Breeder flocks (grandparents of birds) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The poultry business imports its breeder stocks primarily from Aviagen and Cobb Vantress Inc., both of which are agri-business firms based in the U.S. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the day-old chicks are sent to the broiler farms where they are cared for and raised by contract growers according to the Food Division's standards until the chicks reach marketable weight. Fully-grown chickens are transported to processing plants, where they are processed into finished products, which are then sent to distribution centers and sold to customers.

For the year ended December 31, 2018 and the nine-month period September 30, 2019, the fresh meats business sourced more than 90% of its live hogs from contract growing farms. See "*Risk Factors—Risks Relating to Outsourcing to Our Businesses and Operations—Our third party contractors may fail to perform their obligations, or if we are unable to find new contractors to meet increased demand, our businesses and results of operations could be materially and adversely affected*."

Others

Production Facilities

The flour milling business owns two flour mills, located in Mabini and Tabangao in Batangas, and two flour blending facilities in Mabini, Batangas which produces customized flour products. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets.

Production capabilities are supported by its Flour Technology Center located in Pasig City, Metro Manila, which develops customized flour blends and new flour-based products.

San Miguel Mills owns the Golden Bay Grain Terminal located in Batangas Province, which can accommodate Panamax-sized vessels and has an estimated discharge rate of at least 10,000 metric tons per day. The terminal has provided the flour milling business an advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs as well as generate savings in freight costs from the use of bigger vessels. The terminal is adjacent to the flour mill located in Mabini, Batangas and also services the grain handling requirements of the Animal Nutrition and Health segment. The Golden Bay Grain Terminal also services external customers such as commercial grains traders.

An additional flour milling facility is being commissioned in Mabini, Batangas which is expected to be operational by early 2020. The Food Division is also commissioning a new ready-to-eat production facility that should be ready for commercial runs by the first quarter of 2020.

Raw Materials

Historically, approximately 70% of the wheat requirements of the flour milling business are sourced from the U.S. with the remainder sourced from various countries. World wheat prices are monitored daily by BPG to determine long-term and short-term buying strategies to control costs. For the nine-month period ended September 30, 2019, 80% of raw materials, particularly wheat, were imported from the U.S. and Canada.

Sales and Distribution

The Food Division sells its products through three channels, namely, general trade, modern trade and institutional accounts. General trade channels include traditional trade markets in the Philippines, such as small grocery stores, wholesalers and dealers and bakeries, wet markets and *mom* and *pop* stores. Modern trade channels include hypermarkets, supermarkets and convenience stores. Institutional accounts include quick service restaurants and hotels, bakeshop chains, food manufacturers, large commercial farms, and exports. Products are exported to Asia, North America and Europe mainly to supply Filipino communities abroad.

Prepared and Packaged Food

San Miguel Integrated Sales handles the sale and distribution of products under the Prepared and Packaged Food segment through modern trade channels (e.g., major supermarket chains, hypermarkets, groceries, convenience stores), general trade channels (e.g., market traders and *mom* and *pop* stores), wet market traders and retail outlets. The Prepared and Packaged Food segment's products are distributed by Great Food Solutions to institutional and foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts.

Domestic distribution is handled by the outbound logistics group, which manages planning, technical logistics services, warehousing and transportation, while the international business handles exports to serve Filipino communities in Asia, North America, the Middle East, and Europe.

Animal Nutrition and Health

The Animal Nutrition and Health segment produces for both the Food Division's internal requirements and for the commercial feeds market. As of December 31, 2018, 49% of the production volume was used for the Food Division's internal requirements, while the remaining 51% was sold to the commercial feeds market. As of nine-month period ended September 30, 2019, volumes accounted for 54% and 46%, respectively, of the feeds production volumes. Feeds supplied to the Protein segment are not included in the revenue or volume sold of the Animal Nutrition and Health segment.

Approximately 86% of products are sold through authorized distributors within a defined territory, while 14% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Protein

The Food Division sells its Protein segment products through a variety of channels. Modern trade channels, which includes *Magnolia Chicken Stations* for poultry, *Monterey Meatshops* for fresh meats, supermarkets, convenience stores and membership shopping club outlets. General trade channels include wet markets, commissaries, wholesalers, distributors, and buyers of live birds and hogs. Institutional accounts include exports, quick-service restaurants and hotels. In addition, the Protein segment supplies a portion of the requirements of the Prepared and Packaged Food segment.

Protein products are distributed to two market segments through the above-mentioned channels in order to maximize market penetration throughout the Philippines:

- commodity segment (such as wet markets and live chicken and hog buyers); and
- stable-priced segment (such as *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients).

The *Magnolia Chicken Station* was a concept developed by the poultry business to bring the wet market to the supermarket. These stations offer more choices of cuts and better customer service in a clean and hygienic environment. As of September 30, 2019, there are approximately 1,300 *Magnolia Chicken Stations* nationwide, 22% of which are franchisee-owned. The remainder of these outlets are located in supermarkets and are handled by third party operators through a modified consignment arrangement.

The Food Division pioneered in the branding of fresh meats by launching the *Monty's* supermarket meat shop in 1990, which eventually became a network of neighborhood meat shops under the *Monterey* brand. This strategy was successful in differentiating its high-quality meat products from those of competitors. Pork, beef and marinated meats products are sold in hygienic and air-conditioned *Monterey Meatshops* which are manned by well-trained staff.

As of September 30, 2019, there were more than 650 *Monterey Meatshops* throughout the Philippines, 60% of which were franchised, with the remainder being third party-operated.

To increase sales volumes and improve profitability, the Protein segment provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Majority of the Protein segment's products are distributed directly from productions facilities to supermarkets and foodservice operators. The distribution infrastructure includes a network of cold storage facilities located throughout the Philippines and a large fleet of third-party contracted vehicles.

Others

The flour milling business of the Food Division focuses on offering the widest array of differentiated flour products in the Philippine market. The flour application specialists, in support of the sales team, determine the specific flour product requirements of its customers as well as conduct field baking tests of the products to demonstrate their application. For customized products, the R&D team and the sales team work side by side with the customers to develop formulations specific to their requirements. The Food Division manages a nationwide distribution network that distributes flour and other bakery ingredients to major bakeries and other flour users.

Great Food Solutions, our foodservice business, distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Food Solutions receives a development fee from other Food Division subsidiaries for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Food Division's R&D teams engage in continuous activities to identify cost and production process improvements. Among others, cost reductions have been achieved using alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

The Food Division owns several R&D facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial feed formulations to minimize costs and maximize animal growth.

Each R&D team also engages in the development, reformulation and testing of new products and believes that each team's continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, the team regularly conducts consumer surveys and works closely with the Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Aside from product innovations, the R&D teams of the Food Division also look into efficiency improvement for operations through the use of new technology such as climate-controlled housing system for hogs and broilers as a measure of increasing production cycles per farm per year, improving feed consumed to weight ratio and getting better harvest recovery. The "Big Bird" initiative is the selective breeding innovation that optimizes the growth potential of the breed, resulting in lower cost to produce.

Marketing

The Food Division's marketing efforts are focused on reaching more consumers and promoting increased consumption of its products through brand-building activities in all forms of media, from television and print ads to digital marketing as well as promotional events and sponsorships. The Food Division develops marketing programs that emphasize quality, freshness and convenience of its products. For example, the flagship hotdog brand, *Purefoods Tender Juicy* uses the expert campaign where "Kids Can Tell" the difference between *Purefoods Tender Juicy* and other hotdog brands. For the blue line of canned meats, the key campaign is "*Pure Sarap Purefoods"* (or Purely Delicious) which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is "*Pambansang Manok*" (or roughly translated to as "*National Chicken*") with the theme that if you want the best, then *Magnolia Chicken* is the Nation's Choice. *Magnolia Chicken* is packed with Omega 3, raised in stress-free environments, free from hormones and steroids and free from antibiotic residues. The Food Division taps television and cable commercials, digital presence in both Facebook and YouTube among others, out of home promotions such as billboards, taxi ads and culinary events.

Competition

Prepared and Packaged Food

The Food Division is a market leader in the Prepared and Packaged Food category (excluding coffee). In 2017, it had a 15.3% market share, according to GlobalData.

In recent years, the Prepared and Packaged Food segment has faced increased competition mainly from other local players, which are employing aggressive pricing and promotion schemes. Competitors and competing brands in the branded processed meats category include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Virginia), and Century Pacific Food Inc. (Swift and Argentina). To maintain its leadership position, the Food Division adheres to its very strict quality standards, drives innovation in its portfolio and enhances consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

According to The Nielsen Company, as of October 2019, the Food Division has 62.5% market share for hotdogs, 23.4% for corned meats, and 9.5% for luncheon meats. (Copyright © 2018, The Nielsen Company)

According to The Nielsen Company as of the year ended December 31, 2018, the Food Division has a market share of 34% for refrigerated butter, 93% for refrigerated margarine and 97% for non-refrigerated margarine, competing with Fonterra Cooperative Group Limited and Elle & Vire International (for butter) and CIIF Oil Mills Group (for margarine). (Copyright © 2018, The Nielsen Company)

In the cheese category, as of October 2019, the *Magnolia* brand has a 22.3% market share, competing with Mondelez International, Inc. (Eden, Cheez Whiz, and Kraft), according to The Nielsen Company. (Copyright © 2018, The Nielsen Company)

In the ice cream market, Unilever-RFM is the dominant player while Magnolia Inc. has a 9.2% market share as of October 2019 according to The Nielsen Company. (Copyright © 2018, The Nielsen Company)

Animal Nutrition and Health

According to The Nielsen Company, the Food Division is the largest producer of commercial feeds in the Philippines, with a market share of 22.5% of the commercial feeds market by value as of September 2019. Competitors under the Animal Nutrition and Health segment include major domestic producers such as United Animal Health (JBS United), Aboitiz Equity Ventures (Pilmico), and La Filipina Uy Gongco Corporation (PFMC), as well as numerous regional and local feed mills. There are also foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines. (Copyright © 2018, The Nielsen Company)

Protein

Major competitors under the Protein segment include Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and Charoen Pokphand Group. There are also occasional imports from the U.S., Canada and Brazil.

The Philippine fresh meats industry remains highly fragmented consisting mostly of backyard hog raisers. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets.

Others

Major competitors of the flour milling business include General Mills, Inc. and RFM Corporation. Most of its competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. The milling business differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

Local players face competition from imported flour that primarily originates from Turkey, Malaysia and Indonesia. Imported flour has increased its presence through low-cost flour offerings. In order to aggressively compete head-on, the milling business launched “fighting brands” such as *Red Dragon Nova* and *Red Dragon Vega* that match the quality and price of imported flour while maintaining a healthy margin.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights relating to the Food Division's principal products in the Philippines and in foreign markets, including processed meats, dairy, coffee, foodservice and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through *Monterey Meatshops* and *Magnolia Chicken Stations* and other branded distribution outlets, are either registered or pending registration in the name of SMFB or its subsidiaries.

The Food Division owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *San Mig Coffee, La Pacita, B-Meg* and *Monterey*. Registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms are regularly renewed. Maintenance and protection of these brands and related intellectual property rights are important to ensuring distinctive corporate and market identities.

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

Quality Control, Health, Safety and Environmental Matters

The Food Division conforms to statutory and regulatory requirements in relation to quality assurance and food safety. GMP is observed across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

The Food Division is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

Quality and food safety standards are applied uniformly across all production facilities, whether company-owned or contracted, through training provided to third-party operators before they commence operations. Food Division representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. Moreover, Food Division quality assurance personnel conduct periodic operational audits of all production facilities. The Food Division has defined quality assurance and food safety policies and guidelines which are cascaded to the tolling partners to serve as their technical references for the food safety programs managed and implemented across company owned and tolled facilities. To ensure compliance with Food Quality and Food Safety Management systems, trained quality and food safety auditors conduct assessments based on a defined frequency set by the regulatory and quality systems certifying body.

Risk of contamination of products is minimized through strict sanitation procedures and constant monitoring and response. In compliance with the HACCP standards, the Food Division has identified specific stages of processing where preventative measures are undertaken, such as equipment sterilization, hygiene, temperature control and regular equipment testing. The Food Division adheres to a set of systems including proper product storage and handling practices and uses of appropriate facilities and equipment to ensure quality and freshness of products from receipt of raw materials to dispatch of finished goods.

The Food Division is committed to the highest level of food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on HACCP, GMP, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (Republic Act No. 10611) and the requirements of its customers.

As of the date of this Prospectus, the Food Division believes that it is in material compliance with all applicable health, safety and environmental laws.

CUSTOMERS

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

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

HUMAN RESOURCES

Employees

The table below presents a breakdown of personnel for domestic and international operations of each of the three divisions as of September 30, 2019.

Category	Number of Employees As of September 30, 2019
Executives (Officers and Managers)	
Beer and NAB Division	251
Spirits Division	100
Food Division	371
Other Full-Time Employees	
Beer and NAB Division	4,906
Spirits Division	1,128
Food Division	4,452
Total	**11,208**

We have employees located both inside and outside the Philippines. The Beer and NAB, Food and Spirits Divisions expect to increase their respective manpower to support capacity expansion and new facilities.

Labor Agreements

In the Beer and NAB Division, there are 10 existing domestic collective bargaining agreements ("**CBAs**") and five existing collective labor agreements ("**CLAs**") as of September 30, 2019. The Spirits Division has five existing domestic CBAs as of September 30, 2019. The Food Division has six existing CBAs as of September 30, 2019.

Details of the CBAs and CLAs, as applicable, are set out below.

Beer and NAB Division – Domestic

Union	No. of Members	No. of CBAs	Expiration Economic	Expiration Representation
Concerned Workers of SMC – Polo Brewery	260	1	June 30, 2022	July 12, 2020
SMBI Employees Union (SMBIEU) - PTGWO	90	1	June 30, 2022	June 30, 2024
San Fernando Brewery Employees Union (SFBEU)	324	1	Feb 15, 2020	Feb 15, 2020
San Miguel Brewery Inc. Employees Union (SMBIEU)	97	1	Dec 31, 2019	Dec 31, 2019
New San Miguel Sales Force Union	66	1	Jan 31, 2020	Jan 31, 2020
GMA-Monthlies Employees Union-GMAEU-PTGWO	74	1	June 30, 2022	June 30, 2024
San Miguel Brewing Group – Bacolod Brewery Employees Union (SMBG-BEU)	82	1	July 31, 2022	Apr 27, 2024
Philippine Agricultural, Commercial and Industrial Workers Union – Trade Union Congress of the Philippines (PACIWU-TUCP)	48	1	Oct 31, 2019	Oct 31, 2019

Kahugpongan Sa Ligdong Mamumu-O (KLM) ……….	178	1	Dec 31, 2020	Dec 31, 2020
San Miguel Davao Brewery Employees Independent Union (Dailies)…………………………………………	98	1	Nov 30, 2021	Nov 30, 2022

Beer and NAB Division – International

Country/Installation	Union/Organization representing employees	No. of Members	No. of CLAs	Period of CLA Start	Expiration
Vietnam – San Miguel Brewery Vietnam Company Limited	SMBVL Trade Union (under the supervision of the Trade Union of the Khan Hoa Industrial & Economic Zone, Khan Hoa Province, Vietnam)	114	1	Jan 1, 2019	Dec 31, 2020
Indonesia – PT Delta Djakarta Tbk	PTD Trade Union (a member of the Cigarette, Tobacco, Food & Beverage Workers Union, national coverage)	184	1	Agreement is contained in the Company Rules and Regulations which is registered annually with the Department of Labor, Bekasi, Indonesia	
PRC – Guangzhou San Miguel Brewery Company Limited	Trade Union Committee of Guangzhou San Miguel Brewery Co. Ltd.	76	1	Sept 18, 2018	Nov 29, 2020
PRC – San Miguel (Guangdong) Brewery Co., Ltd.	SMGB Trade Union Committee	180	1	June 25, 2019	June 24, 2022
PRC – San Miguel Baoding Brewery Co., Ltd.	SMBB Trade Union committee	242	1	Jan 1, 2018	Aug 31, 2021

Spirits Division

Union	No. of Members	No. of CBAs	Expiration Economic	Representation
United Independent Union of GSMI – Cabuyao Plant………	79	1	Dec 31, 2020	Dec 31, 2022
Ginebra San Miguel Inc. - Freewas Daily Paid Employees Union………………………………………………………..	22	1	Dec 31, 2021	Dec 31, 2023
La Tondeña Distillers, Inc. Workers Union - Sta. Barbara Plant (LATODIWU-SBP) Monthly Paid Independent Union………………………………………………………………	18	1	Dec 31, 2019	Mar 31, 2022
GSMI-SBP-Daily-Paid Workers Independent Union….........	63	1	Dec 31, 2019	Mar 31, 2022
CIO-Distileria Bago Employees Union Chapter…………….	89	1	Dec 31, 2019	Dec 31, 2021

Food Division

Union	No. of Members	No. of CBAs	Expiration Economic	Representation
SMFI with SMFIEU-PTGWO……………………………….	151	1	Dec 31, 2019	Oct 22, 2021
SMFI with MPEU-PTGWO……………………………….....	35	1	Dec 31, 2019	Jun 30, 2021
SMMI with PFMEU………………………………………….	35	1	Dec 31, 2019	Jul 31, 2021
Magnolia PWU IBM 47- Cavite………………………………	144	1	Feb 28, 2020	Feb 28, 2020
Federasi Serikat Pekerja Seluruh Indonesia Sector Rokok, Tembakau Makanan & Minuman (FSPSIRTMM) ……..…..	242	1	Dec 31, 2019	Dec 31, 2019
Trade Union Foundation of San Miguel Pure Foods Vietnam…………………………………………………………	272	1	Dec 31, 2019	Dec 31, 2019

None of the Beer and NAB, Spirits and Food Divisions experienced any strikes or work stoppages in the past five years. Each of the Beer and NAB, Spirits and Food Divisions considers the relationship between the relevant employer entity with its employees to be good and harmonious.

INSURANCE

The Beer and NAB, the Spirits and the Food Divisions are insured under an all-risk policy that covers their respective facilities and inventories (other than livestock, in respect of the Food Division) against a variety of risks, including, among others, fire, lightning, catastrophic perils (typhoon, flood, earthquake, volcanic eruption), machinery breakdown, explosion, civil commotion, riot/strike, malicious damage and other perils liability. The Spirits Division maintains business interruption insurance for its production facilities. While the Beer and NAB Division and Food Division do not have business interruption insurance for domestic production facilities but are covered by an "Increased Cost of Working" provision that compensates them for certain additional expenses incurred in continuing their operations following the covered events.

The inventories (located mostly in warehouses) of the Beer and NAB Division, the Spirits Division and Food Division are also covered under a separate "Industrial All-Risk" policy.

In addition, the Beer and NAB Division, the Spirits Division and the Food Division, maintain general liability insurance policy that covers third party bodily injury, property damage, product liability as well as liability arising from sudden and accidental pollution or environmental damage, as well as liability insurance for directors and key executive officers. The general liability insurance policy covers all exported products of the Beer and NAB Division.

The Beer and NAB Division, the Spirits Division and the Food Division also have a marine cargo insurance policy to cover the domestic and international shipment of goods and equipment. The Beer and NAB Division's comprehensive general liability insurance policy insures all of its exported products.

Insurance policies are obtained from leading Philippine insurance companies that are generally reinsured with a panel of A-rated reinsurers such as Allianz Global Corporate and Specialty and American International Group.

PROPERTIES

For further information on our properties, see "*Description of Property*" elsewhere in this Prospectus.

LEGAL PROCEEDINGS

Each of the Beer and NAB, Spirits, and Food Divisions, is party to legal proceedings arising out of the ordinary course of business, including legal proceedings with respect to labor, intellectual property, tax and other matters. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of these proceedings will not have a material adverse effect on SMFB's financial condition or results of operations. For further information, see "*Legal Proceedings*" elsewhere in this Prospectus.

DESCRIPTION OF PROPERTY

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

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

The Group has no principal properties that are subject to a mortgage, lien or encumbrance.

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

LEGAL PROCEEDINGS

Except as disclosed elsewhere in this Prospectus, neither SMFB nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on each Offer and on the results of the financials and the operations of SMFB.

SEC Case

On September 10, 2018, the SEC served SMC, SMFB and GSMI with summons in respect of a petition (the "**Petition**") filed by Josefina Multi-Ventures Corporation (the "**Petitioner**"). The Petition questions the validity of the share swap transaction between SMFB and SMC and the approval of the increase in the authorized capital stock of SMFB or, asks the SEC to compel SMFB to conduct a mandatory tender offer to the remaining shareholders of GSMI.

The Petition was initiated upon the allegation that the share swap transaction between SMC and SMFB, wherein SMC transferred its common shares in GSMI in exchange for new common shares of SMFB (the "**GSMI Share Swap**"), required the conduct of a mandatory tender offer under the rules of the SRC. Specifically, the Petition questions the GSMI Share Swap and the corresponding increase in SMFB's authorized capital stock for failing to comply with the SRC's implementing rules and regulations. In the alternative, the Petitioner requests the SEC to direct SMFB to conduct a mandatory tender offer for GSMI's minority shareholders to swap their shares for SMFB shares under the terms of the GMSI Share Swap.

The Company believes that there is no basis for the Petition. Significantly, prior to the execution of the Deed of Exchange and the filing of the application for SEC approval of the capital increase of SMFB, SMC and SMFB obtained a written confirmation from the SEC dated March 19, 2018 stating that the SEC *En Banc* in its meeting on March 13, 2018 confirmed that the Share Swap was not subject to the mandatory tender offer rules of the SRC and the SRC's implementing rules and regulations.

On September 25, 2018, SMC, SMFB and GSMI filed their respective answers to the Petition with the SEC.

On February 19, 2019, the special hearing panel of the SEC dismissed the Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied by the special hearing panel on June 10, 2019. An appeal memorandum was filed by the Petitioner with the SEC *En Banc* on July 4, 2019. SMC, SMFB and GSMI were directed to file their comments on the appeal. The case remains pending with the Philippine SEC.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to note 37 of the audited financial statements of the Company for the period ended December 31, 2018.

REGULATORY AND ENVIRONMENTAL MATTERS

The information in this section has been derived from various Government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by us, the Joint Lead Underwriters and Bookrunners, or any of their respective subsidiaries, affiliates or advisors in connection with the Offer and sale of the Bonds.

The Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the "**Food Safety Act**") was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the DA and the DOH, their pertinent bureaus, and the local government units. The National Dairy Authority, National Meat Inspection Service ("**NMIS**"), and Bureau of Fisheries and Aquatic Resources under the DA are the government agencies responsible for the development and enforcement of food safety standards and regulations in the primary production and post-harvest stages for milk, meats, and fish, respectively, while the FDA under the DOH is responsible for the safety of processed and pre-packaged foods. The Food Safety Act created the Food Safety Regulation Coordinating Board to monitor and coordinate the performance and implementation of the mandates of the government agencies under the law.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The DA and DOH are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) imported foods shall undergo cargo inspection and clearance procedures by the DA and DOH at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on Food Business Operators ("**FBO**"): (a) FBO shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a FBO considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) FBO shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

For the enforcement of the Food Safety Act, the food safety regulatory agencies are authorized to perform regular inspection of food business operators taking into consideration the compliance with mandatory safety standards; implementation of the Hazard Analysis at Critical Control Points ("**HACCP**") or the science-based system that identifies, evaluates, and controls hazards for food safety at critical points; good manufacturing practices; and other requirements of regulations. It is prohibited to refuse access to pertinent records or entry of inspection officers of the food safety regulatory agencies. It is likewise prohibited, among others, to produce, handle, or manufacture for sale, offer for sale, distribute in commerce, or import any food or food product, which is banned or is not in conformity with applicable quality or safety standard. The commission of any of the prohibited acts under the Food Safety Act can result in imprisonment and/or a fine.

The implementing rules and regulations of the Food Safety Act requires all food businesses, including large and medium scale food businesses engaged in the manufacture of processed and prepackaged food, to have a Food Safety Compliance Officer ("**FSCO**") who has passed a prescribed training course for FSCO recognized by the DA and/or the DOH.

FBOs producing processed and pre-packaged food should develop a Risk Management Plan as basis for the issuance of appropriate authorizations by the DOH. If an FBO considers or has reason to believe that a food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it should immediately initiate procedures to withdraw the food in question from the market and inform the regulatory authority in accordance with the approved product recall program.

FBOs should also report any incident where its product has caused or contributed to the death, serious illness or serious injury to a consumer or any person. The product should be withdrawn from the market in accordance with the FBO's respective product recall program, and disposed according to the procedures prescribed by the DA and/or the DOH.

The FDA may order a recall if: (a) a distributed product presents a risk of illness or injury or gross consumer deception; (b) the manufacturer or distributor has not initiated a recall; and (c) an agency action is necessary or advisable to protect the public health and welfare. The manufacturer or distributor will be notified of the decision to order a product recall. The notification will specify the violation, the health hazard classification, the recommended recall strategy to be undertaken, and any other instructions appropriate to the conduct of the recall. Within 24 hours after the FDA issues an order for product recall, the FDA will issue a Public Health Alert to alert consumers on serious health hazards or other situations deemed to be in the public interest.

A product recall may also be initiated by a manufacturer or distributor of a violative product (*i.e.*, the product presents a risk of injury or does not conform to registered specifications). The manufacturer or distributor should provide the FDA the following information: (a) identity of the product involved; (b) the reason for the removal or correction and the date and circumstances under which the product deficiency or possible deficiency was discovered; (c) evaluation of the risk associated with the deficiency or possible deficiency; (d) total amount of such products produced and/or the time span of the production; (e) total amount of such products estimated to be in distribution channels; (f) distribution information, including the number of distribution outlets and where necessary, the names and addresses of the distribution channels; (g) copy of the recall communication or proposed communication; (h) proposed strategy for conducting the recall; and (i) name and phone number of the official who should be contacted concerning the recall.

Products which have been subjected to a recall must immediately be removed from the market and must not be allowed for distribution and sale. Upon completion of the recall procedure, the concerned company must notify the FDA of the final disposition of the product. If the product is to be destroyed, the destruction should be witnessed by an FDA representative. If the product has been reprocessed to comply with registered specifications, distribution and sale of the reprocessed product will only be allowed following a written recommendation from the FDA to do so.

The FDA may seize the products or seek other court action if a firm refuses to conduct an FDA-ordered recall or where the FDA has reason to believe that a recall would not be effective, a recall is ineffective, or discovers that a violation is continuing.

The DOH, through the FDA, is responsible for the assurance of safety of processed and pre-packaged food products, whether locally produced or imported, including meat products. Renewal of the registration of processed meat and licenses of establishments manufacturing, importing or exporting, selling, offering for sale, transferring, or distributing processed meat should be in accordance with the existing FDA guidelines on renewal of authorizations.

The Food, Drugs and Devices, and Cosmetics Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the "**FDDC Act**"), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act. The FDA requires both a license to manufacture food products, as well as individual certificates of registration for each product to be manufactured or sold in the Philippines.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution or transfer, non-consumer use, promotion, advertisement or sponsorship food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food product by any person or entity without a license to operate from the FDA. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

We have "Licenses to Operate" from the FDA, which are renewable every year.

FDA Rules and Regulations

Consistent with the mandate to adopt and establish mechanisms and initiatives that are aimed to protect and promote the right to health of every Filipino, the FDA issued the Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, which require all food establishments to obtain a License to Operate ("**LTO**") from the FDA before they can validly engage in the manufacture, importation, exportation, sale, offer for sale, distribution, and transfer of food products in the Philippine market. An initial LTO is valid for a period of two years, while a renewed license is valid for five years.

An LTO can be automatically renewed when (a) the application for renewal is filed before the expiration date of the license, (b) the prescribed renewal fee is paid upon filing of the application, and (c) an affidavit of undertaking for automatic renewal with a sworn statement indicating no change or variation in the establishment is attached to the application. An application for renewal of an LTO received after its date of expiration will be subject to a surcharge or penalty.

Further, the LTO subject of an application for renewal will be considered valid and subsisting until a decision or resolution by the FDA is rendered on the application for renewal as long as the application is filed within 120 days from LTO's original expiry. The automatic renewal of an LTO should not preclude the FDA from suspending, revoking or cancelling the same in case the owner violates any of the terms and conditions of the license or other relevant laws and implementing rules and regulations. The assignment or transfer of a valid and unexpired LTO, or pending application for renewal without any change or variation whatsoever in the establishment, requires a mere amendment of the LTO or the application, as the case maybe.

The manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product without the proper authorization from the FDA is prohibited and punishable, by imprisonment and fine.

In addition to an LTO, the FDA also requires a Certificate of Product Registration ("**CPR**") for processed food products before said products are distributed, supplied, sold or offered for sale or use in the market. A CPR covering a particular health product constitutes prima facie evidence of the registrant's marketing authority for said health product in connection with the activities permitted pursuant to the registrant's LTO.

For processed food products, the validity of an initial CPR is two years to five years, while a renewed CPR is valid for five years; provided that upon renewal, its holder conforms with the pertinent standards and requirements including labelling regulations.

A CPR may be automatically renewed provided that: (a) the registrant has a current and valid LTO, (b) the product is covered by a current and valid CPR, and (c) there are no deficiencies that need to be corrected before the renewal of the CPR can be granted. The application for renewal must be filed at least 90 days before the expiration of the CPR, although an application for renewal may still be filed within 60 days after the expiration date of the CPR, subject only to the payment of a surcharge.

An expired CPR that has not been renewed within the 60-day grace period cannot be the subject of a renewal application and will be considered an initial application for the registration of the product.

The operation of a food business without the proper authorization from the FDA is prohibited and punishable with a fine. The closure of the establishment may also be imposed as a penalty upon a finding of a commission of a prohibited act.

The Consumer Act

The Consumer Act of the Philippines (the "**Consumer Act**"), the provisions of which are principally enforced by the DTI seeks to: (i) protect consumers against hazards to health and safety; (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

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

The Consumer Act prohibits the manufacture for sale, offer for sale, distribution, or importation of food products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder. Like the FDDC Act, the Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabeled. In connection therewith, the Consumer Act provides for minimum labeling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public. In addition, the Consumer Act prohibits the false, deceptive or misleading advertisements and sales promotions and deceptive sales acts and practices in connection with food products. Any person found in violation of the provisions of the Consumer Act shall be subject to administrative penalties and/or imprisonment of not less than one year but not more than five years, or a fine of not less than ₱5,000.00 but not more than ₱10,000.00 or both at the discretion of the court. Should the offense be committed by a juridical person, the chairman of the board of directors, the president, general manager, or the partners and/ or the persons directly responsible therefore shall be penalized. Under the Consumer Act, the DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Consumer Act sets forth the minimum labeling requirements for consumer products sold in the Philippines. These requirements are: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under license from a principal, the label shall so state the fact. Additional labeling requirements are imposed by the Consumer Act for food products, which are: (a) expiry or expiration date, where applicable; (b) whether the consumer product is semi-processed, fully processed, ready-to-cook, ready-to-eat, prepared food or just plain mixture; (c) nutritive value, if any; and (d) whether the ingredients used are natural or synthetic, as the case may be.

For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Livestock and Poultry Feeds Act

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

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis. The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

Our feed mills, whether company-owned or tolled, are all registered with the BAI and we pay monthly inspection fees based on the number of metric tons of feeds produced. We also seek approval from the BAI for brand names and register every new product prior to market launch. To obtain the brand name clearance and product registration, we submit a notarized Application for Feed Product Registration, Results of Analysis and three copies of feed tags to be inserted in the packaging of the new product. Based on this information, the BAI makes a determination as to whether the new product is within its specifications.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the "**Meat Inspection Code**") establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The NMIS, a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The DA requires all operators and/or owners of postharvest meat establishments to subject their facilities for evaluation for the issuance of an LTO by the NMIS.

Our poultry processing plants and livestock slaughter plants, both company-owned and tolled, are all accredited by NMIS. Since our plants have all been issued an LTO, CPR, and/or Export Commodity Clearance Certificate by the FDA, products from those plants qualify for distribution to any location throughout the Philippines or for export. Plant accreditations are renewed annually following inspection by NMIS for compliance with the Good Manufacturing Practices, Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Points. NMIS inspectors are also stationed at each of our poultry processing plants and livestock slaughter plants on a daily basis and issue certifications for each batch of products that is shipped from any of those plants.

The Price Act

To the extent that our Company's businesses touch on basic necessities and prime commodities, Republic Act No. 7581, or the Price Act, may apply. The Price Act covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

Under the Price Act, the prices of basic commodities may be automatically frozen at their prevailing prices or placed under automatic price control whenever: (a) that area is proclaimed or declared a disaster area or under a state of calamity; (b) that area is declared under an emergency; (c) the privilege of the writ of habeas corpus is suspended in that area; (d) that area is placed under martial law; or (e) that area is in a state of rebellion or war.

Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the "**PFF Act**") provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and foodservice establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

All Magnolia-branded products are compliant with the PFF Act. For example, we use iodized salt in Magnolia products to comply with Republic Act No. 8172 (An Act for Salt Iodization Nationwide).

For wheat flour, the addition of Vitamin A and Iron are mandated under standards set by the DOH. Our flour business has been compliant with the requirements of the PFF Act since 2004.

Government Regulations on the Manufacture and Wholesale of Alcoholic Beverages

Beverages are included in the definition of "food" and are within the coverage of the Food Safety Act. An LTO and other requirements specified in the Food Safety Act and its implementing rules and regulations are likewise necessary for establishments engaged in the manufacturing, importation, exportation, sale, offer for sale, distribution, transfer, use, testing, promotion, advertisement, and/or sponsorship of alcoholic beverages. Alcoholic beverages have been classified by the FDA as low risk food products in based on the Codex Alimentarius General Standard for Food Additives and the UN Food and Agriculture Organization Risk Categories. Food establishments classified as high risk are prioritized for inspection by the FDA.

Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law by President Duterte on February 20, 2019. The Revised Corporation Code took effect on February 23, 2019 upon completion of its publication in Manila Bulletin and the Business Mirror on February 23, 2019.

Among the notable amendments in the Revised Corporation Code are as follows: (i) corporations are now generally given a perpetual existence; (ii) a new section on one-person corporation was added; (iii) the requirement that at least 25% of the authorized capital stock must be subscribed, and at least 25% of the subscribed shares must be paid-up was removed; (iv) stockholders can now vote in absentia; and (v) the powers of the SEC to prosecute and investigate offenses under the Revised Corporation Code has been expanded.

The Securities and Exchange Commission

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

The Bangko Sentral ng Pilipinas

The BSP is the central bank of the Philippines. It was rechartered on July 3, 1993, pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP was established on January 3, 1949, as the country's central monetary authority. Among its functions is the management of foreign currency reserves, by maintaining sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.

The Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers.

The Board of Investments

The Philippine Board of Investments ("**BOI**"), is the lead government agency responsible for the regulation and promotion of investments in the Philippines. The BOI assists Filipino and foreign investors to venture and prosper in desirable areas of economic activities. Entities registered with the BOI are given incentives by the government such as: income tax holiday, additional deduction from taxable income based on labor expense, tax and duty exemption on imported capital equipment, tax credit on domestic capital equipment, exemption from contractor's tax, and tax credit for taxes and duties on raw materials. To be qualified for BOI registration, the entity must, among other requirements provided by the Omnibus Investments Code of 1987, as amended, be engaged in a preferred activity in the current Investment Priorities Plan.

The Department of Labor and Employment

The Department of Labor and Employment ("**DOLE**") stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

The Labor Code

On March 15, 2017, the DOLE issued Department Order No. 174 series of 2017 ("**DO 174**") implementing the provisions of the Labor Code on contracting and subcontracting arrangements. DO 174 prohibits labor-only contracting which are arrangements where the contractor or subcontractor: (a) (i) does not have substantial capital, or (ii) does not have investments in the form of tools, equipment, machineries, supervision, and work premises, among others, and (iii) recruits or places employees performing activities which are directly related to the main business operation of the principal; or (b) the contractor or subcontractor does not exercise control over the performance of the work of the employee.

On October 18, 2017, the DOLE issued Department Order No. 183, series of 2017 ("**DO 183**"). DO 183 authorizes the conduct of surprise inspections by the DOLE. The DOLE is no longer required to give employers written notice prior to an inspection. However, DOLE Labor Inspectors are still required to present a written "Authority to Inspect" before conducting the inspection (i.e. examination of the employment records, interview of employees, and inspection of the premises). DO 183 also provides that DOLE will no longer issue certificates of compliance to employers. Under previous DOLE rules, employers were issued a certificate of compliance that meant a presumption of compliance for a period of two (2) years.

The Labor Code provides that, in the absence of a retirement plan provided by their employers, private-sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five (5) years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six (6) months being considered as one (1) whole year. For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: 15 days' salary based on the latest salary rate; in addition, one-twelfth of the 13th month pay and the cash equivalent of five (5) days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

Occupational Health and Safety Standards

On August 17, 2018, Republic Act No. 11058 or the Occupational Safety and Health Law was signed into law. It requires employers to furnish workers a place of employment free from hazardous conditions causing or are likely to cause death, illness or physical harm, among other things. The law prescribes penalties for the willful failure or refusal of an employer, contractor or subcontractor to comply with the required standards or with a duly issued compliance order. The refusal is penalized by an administrative fine not exceeding ₱100,000.00 per day until the violation is corrected, counted from the date the employer or contractor is notified of the violation or the compliance order is duly served. An employer, project owner, general contractor, contractors or subcontractor, and any person who manages, controls or supervises the work being undertaken is jointly and solidarily liable for compliance with the law.

Social Security System, PhilHealth, and Home Development Mutual Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No, 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Insurance Program administered by the Philippine Health Insurance Corporation a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013. On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program.

Presidential Decree No. 1752, as amended, requires all employers covered by the SSS to register and remit contributions to the Home Development Mutual Fund, more commonly known as the Pag-IBIG Fund (the "**Fund**"). Every private employer is required to register with the Fund for purposes of making required contributions on behalf of its employees. It shall be the responsibility of the employer to deduct the employees' share from such employees' salaries and remit the entire amount of required contributions to the Fund.

The Data Privacy Act

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

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

ENVIRONMENTAL MATTERS

The operations of our various businesses are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Environmental Impact Statement System Law

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB while a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "**IEE**") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required.

The EIS refers to both the document and the study of the environmental impact of the project, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Clean Water Act

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Philippine Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes said owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time.

The discharge permit specifies the quantity and quality of effluents that the holder of the permit is allowed to discharge as well as the validity of the permit. The quantity and quality shall be based on the installed capacity of the facility. The discharge permit is valid for a maximum period of five years from the date of its issuance, renewable for five-year periods thereafter. The DENR may, however, renew the discharge permit valid for a longer period if the applicant has adopted waste minimization and waste treatment technologies, consistent with incentives currently provided has been paying the permit fees on time.

The Water Code

Presidential Decree No. 1067, or "The Water Code of the Philippines", requires a water permit for the appropriation of water from any public water source such as rivers, creeks, brooks, springs, lakes, lagoons, swamps, marshes, subterranean, or groundwater and seawater for, among others, industrial purposes (i.e., utilization of water in factories, industrial plants and mines including the use of water as an ingredient of a finished product). Appropriation of water without the necessary water permit is considered a grave offense and is punishable by fine. In cases where the offender is a corporation, firm, partnership or association, the penalty will be imposed upon the guilty officers.

Clean Air Act

Pursuant to Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the *Kapisanan ng mga Brodkaster ng Pilipinas*, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Local Government Code

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Businesses are required to obtain a Mayor's Permit (local business permit) from the local government unit having jurisdiction over the area where an entity seeks to operate before it can lawfully do business in a certain city or municipality. A Mayor's Permit is issued only after compliance with certain local government requirements, including, but not limited to, a Sanitary Permit, Certificate of Electrical Inspection, Fire Safety Inspection, Locational Clearance, Barangay Business Clearance and payment of the required fees. These ancillary permits are valid for one year and must be renewed before the Mayor's Permit is issued. Failure to obtain a mayor's permit may expose an entity to fines and penalties, and even suspension or closure of its business.

Under the implementing rules and regulations of the Food Safety Act, LGUs are mandated to issue business permits to FBOs indicating compliance with the LGU's sanitation code and such other food safety requirements that may be prescribed by the LGU. Such permit authorizes FBOs to market their products within the territorial jurisdiction of the LGU.

Other Relevant Tax-Related Regulations

On July 21, 2014, the Food and Drug Administration issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the Food and Drug Administration Certification for Animal Feeds and Products. The FDA issued the circular pursuant to BIR Revenue Memorandum Circular No. 55-2014 which required FDA certification that imported livestock and poultry feeds or ingredients thereof are not fit for human consumption before the same would be considered exempt from VAT.

Other Laws

Other regulatory environmental laws and regulations applicable to our businesses include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. The said Code is implemented by the DOH.

The DENR Rules on Disposition of Hazardous Waste provides that a waste generator or a person who generates or produces hazardous wastes through any institutional, commercial, industrial or trade activities must register online and pay the registration fee to the EMB Regional Office having jurisdiction over the location of the waste generator. Upon registration, the EMB shall issue a DENR identification number, which is generally a one-time permit unless there is a change in the hazardous wastes produced.

Under DENR Administrative Order No. 2013-22, a duly registered waste generator must, among others: (a) designate a full-time Pollution Control Officer; (b) disclose to the DENR the type and quantity of waste generated; (c) implement proper waste management from the time the wastes are generated until they are rendered non-hazardous; (d) continue to own and be responsible for the wastes generated in the premises until the wastes have been certified by an accredited waste treater as adequately treated, recycled, reprocessed, or disposed of; (e) adhere to the hazardous waste transport manifest system when transporting hazardous wastes for offsite treatment, storage, and/or disposal; (f) prepare and submit to the DENR comprehensive emergency preparedness and response program to mitigate spills and accidents involving chemicals and hazardous wastes; (g) communicate to its employees the hazards posed by the improper handling, storage, transport, use and disposal of hazardous wastes and their containers; and (h) develop capability to implement the emergency preparedness and response programs and continually train core personnel on the effective implementation of such programs. Failure to comply with DENR Administrative Order No. 2013-22 shall make the violator liable for a fine of ₱50,000.00. In addition to such penalty, a violation of any of its governing rules or rules covering the contingency program shall result in the immediate suspension of the permit.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board of Directors consists of 15 members who hold at least one share each in the capital stock of the Company and 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. They 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 SMFB's by-laws and applicable laws and regulations.

The table below sets forth each member of our Board of Directors as of the date of this Prospectus.

Name	Age	Nationality	Position
Eduardo M. Cojuangco, Jr.	84	Filipino	Chairman of the Board
Ramon S. Ang	65	Filipino	Vice Chairman of the Board
Francisco S. Alejo III	71	Filipino	Director
Roberto N. Huang	71	Filipino	Director
Emmanuel B. Macalalag	53	Filipino	Director
Ferdinand K. Constantino	68	Filipino	Director
Aurora T. Calderon	65	Filipino	Director
Joseph N. Pineda	56	Filipino	Director
Menardo R. Jimenez	86	Filipino	Director
Ma. Romela M. Bengzon	59	Filipino	Director
Carmelo L. Santiago	76	Filipino	Independent Director
Minita V. Chico-Nazario	79	Filipino	Independent Director
Ricardo C. Marquez	59	Filipino	Independent Director
Cirilo P. Noel	62	Filipino	Independent Director
Winston A. Chan	63	Filipino	Independent Director

The table below sets forth our key executive and corporate officers as of the date of this Prospectus.

Name	Age	Nationality	Position
Ramon S. Ang	65	Filipino	President and Chief Executive Officer
Francisco S. Alejo III	71	Filipino	Chief Operating Officer – Food
Roberto N. Huang	71	Filipino	Chief Operating Officer – Beer and NAB
Emmanuel B. Macalalag	53	Filipino	Chief Operating Officer – Spirits
Ferdinand K. Constantino	68	Filipino	Treasurer
Ildefonso B. Alindogan	45	Filipino	Vice President, Chief Finance Officer and Chief Strategy Officer
Alexandra B. Trillana	46	Filipino	General Counsel, Corporate Secretary and Compliance Officer
Kristina Lowella I. Garcia	46	Filipino	Assistant Vice President and Investor Manager

Board of Directors and Key Executives and Officers

A process of selection to ensure a mix of competent directors aligned with our 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 our businesses and related interests. More than 50% of our Board of Directors is comprised of non-executive directors. Further, we are compliant with the new Code of Corporate Governance issued by the SEC effective January 1, 2017 (the "**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. All our independent directors do not have ties to SMFB's management and substantial shareholders.

Our independent directors are nominated and elected in accordance with the rules of the SEC. Under the CG Code, an independent director may serve as such for a maximum cumulative term of nine years. After which, the independent director, will be perpetually barred from re-election, but may continue to qualify for nomination and election as a non-independent director. However, in the instance that a corporation would want to retain an independent director who has served for nine years, the board of directors should provide meritorious justification and seek shareholders' approval during the ASM.

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

Pursuant to these rules, each of our independent directors issues and submits to the Corporate Secretary for filing with the SEC, 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.

The Board holds regular meetings on a quarterly basis to review and approve the quarterly report (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 our key corporate officers and senior management led by the President and the heads of the other control functions (i.e., Chief Finance Officer, Compliance Officer, internal audit group head), Board committee members, lead independent directors, and trustees of the retirement fund, and the designation of authorized signatories and signing limits for banking and other corporate transactions. Board meetings are scheduled before the beginning of the year. In particular, during the last regular meeting of the year, the Board sets the dates for its regular and organizational meetings for the succeeding year.

Immediately after such last Board meeting for the year, which is usually held in the second week of November, as part of the nomination and election process for directors, which the Board assessed as effective, SMFB discloses the date of the following year's ASM and invites stockholders who wish to nominate candidates to the Board, to submit the names of their nominees not later than January 31 of the following year, to the Corporate Secretary at the principal office address of SMFB, for the consideration of the Chairman and the Corporate Governance Committee.

The business experience for the last five years of members of our Board of Directors and key executives and officers are set forth below.

Eduardo M. Cojuangco, Jr. 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 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 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 Golden Food Management, Inc., San Miguel Pure Foods (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., and San Miguel Pure Foods International, Limited (BVI); President of San Miguel Foods, Inc., and San Miguel Mills, Inc.; President of Magnolia Inc. and The Purefoods-Hormel Company, Inc.; Director of listed company Ginebra San Miguel, Inc. and private companies San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), and San Miguel Foods Investment (BVI) Ltd.; and President Commissioner of PT San Miguel 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 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 was appointed Chief Operating Officer – Spirits 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 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 company 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 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.

Joseph N. Pineda has been a director of the Company since June 5, 2019. He is currently the Senior Vice President and Deputy Chief Finance Officer of listed company San Miguel Corporation; Chairman of SMC Shipping and Lighterage Corporation and Process Synergy, Inc.; and Director and Treasurer of San Miguel Holdings Corp., South Premiere Power Corp., SMC Stock Transfer Service Corporation, and SMITS, Inc. He also serves as Director for Sea Refinery Corporation, Anchor Insurance Brokerage Corp., San Miguel Equity Investments Inc., San Miguel Aerocity Inc. and Rapid Thoroughfares Inc. Mr. Pineda holds a Bachelor of Arts Degree in Economics from San Beda College and took Masters in Business Administration units in De La Salle University.

Menardo R. Jimenez 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 has been a non-executive director of the Company since May 11, 2018. Atty. Bengzon is currently a director of Petron Marketing Corporation. 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 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 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 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 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., Cal-Comp Technology Philippines, Inc., Amber Kinetics Holding Co., Eton Properties, Inc., Transnational Diversified Group, Inc. and listed companies Globe Telecoms, Inc., Security Bank Corporation and JG Summit 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 and former 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 has been 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.

Ildefonso B. Alindogan was appointed Vice President, Chief Finance Officer and Chief Strategy Officer of the Company on July 5, 2018. He is currently a director of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc. and Magnolia Inc. He joined the San Miguel Group of companies on April 26, 2018. Before joining San Miguel, he was employed at Standard Chartered Bank, Manila, as Executive Director – Head of Philippines FX and Rates Trading, Financial Markets (September 2012 to March 2018) and Director – Sales, Financial Markets (September 2010 to August 2012). Prior to Standard Chartered Bank, he held positions in Treasury and Corporate Finance for various financial institutions. Mr. Alindogan holds a Bachelor of Science Degree in Management Engineering (Honors Program) from Ateneo De Manila University and a Masters in Business Administration, Major in Finance from The Wharton School, University of Pennsylvania.

Alexandra Bengson Trillana is the Corporate Secretary (since September 15, 2010), Compliance Officer (since August 8, 2016) and General Counsel (since June 5, 2019) of the Company. She is also Vice President and General Counsel of the Food Division; and Corporate Secretary of San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods- Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Golden Food Management, Inc., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., and Foodcrave Marketing, Inc. She was previously Assistant Corporate Secretary of the Company (from April 26, 2004 to September 14, 2010); and Senior Manager – Commercial Transactions of San Miguel Corporation's Office of the General Counsel (from August 2005 to December 2009). Atty. Trillana holds a Bachelor's Degree in Commerce Major in Legal Management from De La Salle University and a Juris Doctor Degree from Ateneo de Manila University School of Law.

Kristina Lowella I. Garcia was appointed Assistant Vice President, Investor Relations Manager of the Company effective August 1, 2018. She was previously a Director for Investor Relations of Century Properties Group, Inc. (January 2013 to July 2018). She was likewise Director for Investor Relations of Megaworld Corporation and, subsequently, Alliance Global Group, Inc. (March 2007 to September 2012). Ms. Garcia holds a Bachelor of Arts Degree from Ateneo De Manila University, a Certificate in Business Administration from Georgetown University, and a Masters in Business Administration from John Hopkins University.

Corporate Governance

We recognize that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. Our Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

Our Board of Directors, led by Chairman Eduardo M. Cojuangco, Jr., believe in conducting the business affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

Manual on Corporate Governance

The first Manual on Corporate Governance of the Company was approved by the Board of Directors in August 2002. In May 2017, the Board of Directors approved a new Manual on Corporate Governance (the "**Manual**") to align with the Code of Corporate Governance for Publicly-Listed Companies issued by the SEC under SEC Memorandum Circular No. 19, series of 2016. In November 2019, the Board of Directors amended the Manual to clarify that in view of the magnitude of the Company's operations following the SMFB Consolidation, the Company shall have in place an internal audit function carried out by three separate and independent Internal Audit Groups – one for the Company and its Food Division, one for the Company's Beer and NAB Division, and one for the Company's Spirits Division. The Manual is available for examination in the Company's corporate website at http://www.smfb.com.ph/corpgovmanual.pdf.

Our monitoring of the implementation of the evaluation system to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

To ensure adherence to corporate governance principles and best practices, 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 the Manual, as may be amended from time to time, applicable laws and the rules and regulations of the relevant regulatory agencies. The Compliance Officer holds the position of Vice President and has direct reporting responsibilities to the Chairman of the Board.

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 at http://www.smfb.com.ph/boardcommitteecharters.pdf .

The Company submits Integrated Annual Corporate Governance Reports (I-ACGR) in accordance with SEC Memorandum Circular No. 15, series of 2017. Such I-ACGRs are posted in the Company's corporate website at http://www.smfb.com.ph/acgr.pdf, for the guidance of the investing public.

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 the seminar organized by the Company in September 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. By the end of 2018, all incumbent 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 of the Company attended the required annual seminar for the year on corporate governance conducted by a training provider duly accredited by the SEC.

Pursuant to our commitment to good governance and business practice, we continue to review and strengthen our policies and procedures, giving due consideration to developments in the area of corporate governance, which we determine to be in the best interests of the Company and our stockholders.

Committees of the Board of Directors

Our Board of Directors appoint directors to the five Board committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified. The five committees are: (i) the Executive Committee; (ii) the Audit Committee; (iii) the Related Party Transactions Committee; (iv) the Board Risk Oversight Committee; and (v) the Corporate Governance Committee. The attendance of a majority of its members will constitute a quorum for the committee to transact business. The committee will act only on the affirmative vote of at least a majority of the members present at a meeting at which there is a quorum. The by-laws of the Company nevertheless provides that no corporate policies, decisions or actions will be taken by the Board of Directors or any committee of the Board of Directors without the vote of at least two-thirds of the entire membership of the Board or committee on any matters not in furtherance of the business currently carried on by the Company.

Executive Committee

The Executive Committee is tasked to help and assist the officers 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.

The Executive Committee is currently composed of four directors that include the Chairman of the Board and the President. The Executive Committee chairperson is Mr. Eduardo M. Cojuangco, Jr. The members of the committee are Messrs. Ramon S. Ang, Francisco S. Alejo III, and Roberto N. Huang.

Audit Committee

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. Presently, the Company's external auditor is R.G. Manabat & Co.

The Audit Committee is composed of four members, a majority of whom are non-executive and independent directors. All committee members have relevant background, knowledge, skills or experience in the areas of accounting, auditing and finance. The members of the committee are Mr. Cirilo P. Noel (Independent), Mr. Ricardo C. Marquez (Independent), Mr. Winston A. Chan (Independent) and Ms. Aurora T. Calderon. Mr. Ferdinand K. Constantino serves as an advisor to the committee. The chairperson of the Audit Committee is Mr. Cirilo P. Noel (Independent).

Related Party Transactions 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.

The Related Party Transactions Committee is composed of five members, a majority of whom are non-executive and independent directors. The members of the committee are Mr. Carmelo L, Santiago (Independent), Ms. Minita V. Chico-Nazario (Independent), Mr. Cirilo P. Noel (Independent), Mr. Winston A. Chan (Independent) and Mr. Ferdinand K. Constantino. The chairperson of the Related Party Transactions Committee is Mr. Carmelo L. Santiago (Independent).

Board Risk Oversight 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.

The Board Risk Oversight Committee is composed of five non-executive directors, a majority of whom are independent directors. The Board Risk Oversight committee chairperson is Mr. Ricardo C. Marquez (Independent). The members of the committee are Mr. Carmelo L. Santiago (Independent), Ms. Minita V. Chico-Nazario (Independent), Mr. Menardo R. Jimenez and Mr. Ferdinand K. Constantino.

Corporate Governance 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 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.

The Corporate Governance Committee is composed of four directors of the Company, three of whom are Independent Directors. The Corporate Governance Committee chairperson is Ms. Minita V. Chico-Nazario (Independent). The members of the committee are Messrs. Carmelo L. Santiago (Independent) Ricardo C. Marquez (Independent), and Menardo R. Jimenez. Atty. Virgilio S. Jacinto serves as an advisor to the committee.

Executive Compensation Table

Compensation

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

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the Chief Executive Officer and Senior Executive Officers[1]	2019 (estimated)	₱102.7 Million	₱34.5 Million	₱8.2 Million	₱145.4 Million
	2018	₱86.1 Million	₱62.0 Million	₱7.8 Million	₱155.9 Million
	2017	₱70.3 Million	₱37.6 Million	₱3.7 Million	₱111.6 Million
All other officers and directors as a group unnamed	2019 (estimated)	₱710.2 Million	₱202.7 Million	₱181.0 Million	₱1,093.9 Million
	2018	₱650.7 Million	₱342.1 Million	₱177.3 Million	₱1,170.1 Million
	2017	₱185.2 Million	₱95.0 Million	₱49.2 Million	₱329.4 Million
TOTAL	2019 (estimated)	₱843.7 Million	₱245.8 Million	₱192.7 Million	₱1,282.2 Million
	2018	₱764.8 Million	₱442.8 Million	₱188.0 Million	₱1,395.6 Million
	2017	₱255.5 Million	₱132.6 Million	₱52.9 Million	₱441.0 Million

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

In 2018, each director received a per diem of ₱10,000.00 per attendance at Board and Board committee meetings of the Company. In the year 2018, the Company paid a total of ₱1,270,000.00 in per diem allowances to the Board of Directors, as follows:

Executive Directors	₱220,000.00
Non-executive Directors (other than Independent Directors)	410,000.00
Independent Director	640,000.00
TOTAL	**₱1,270,000.00**

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

There are neither compensatory plans nor arrangements with respect to an executive officer that results or will

[1] *The Chief Executive Officer and Senior Executive Officers of the Company for 2019 and 2018 are as follows: Ramon S. Ang, Roberto N. Huang, Francisco S. Alejo III, Emmanuel B. Macalalag and Ildefonso B. Alindogan. The President and Senior Executive Officers of the Company for 2017 are as follows: Francisco S. Alejo III, Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Oscar R. Sanez, Jr.*

result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

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

Involvement in Certain Legal Proceedings of Directors and Executive Officers

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

Significant Employees

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

Family Relationships

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

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

The following table sets out our shareholders of more than 5% of our voting securities and their respective shareholdings and corresponding percentage ownership as of the date of this Prospectus.

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of Total Outstanding Shares
Common	San Miguel Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550	San Miguel Corporation	Filipino	5,245,082,440	88.76%

Security Ownership of Directors and Officers

The following comprise our Board of Directors as of the date of this Prospectus. Under the Corporation Code and SMFB's by-laws, to qualify as a member of the Board of Directors, each director is required to hold at least one share in his name in the books of the corporation.

Title of Class	Name of Record Owner	No. of Shares	Amount (₱)	Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Eduardo M. Cojuanco, Jr.	10	10.00	Direct	Filipino	0.00%
Common	Ramon S. Ang	10	10.00	Direct	Filipino	0.00%
Common	Francisco S. Alejo III	10	10.00	Direct	Filipino	0.00%
		230,000	230,000.00	Beneficial		
Preferred		10,000	10,000,000.00	Beneficial		
Common	Menardo R. Jimenez	10	10.00	Direct	Filipino	0.00%
Common	Ma. Romela M. Bengzon	10	10.00	Direct	Filipino	0.00%
Common	Carmelo L. Santiago	10	10.00	Direct	Filipino	0.00%
Common	Minita V. Chico-Nazario	10	10.00	Direct	Filipino	0.00%
Common	Ricardo C. Marquez	10	10.00	Direct	Filipino	0.00%
Common	Cirilo P. Noel	10	10.00	Direct	Filipino	0.00%
Common	Aurora T. Calderon	10	10.00	Direct	Filipino	0.00%
Common	Ferdinand K. Constantinc	10	10.00	Direct	Filipino	0.00%
Preferred		8,100	8,100,000.00	Beneficial		
Common	Roberto N. Huang	10	10.00	Direct	Filipino	0.00%
Preferred		3,500	3,500,000.00	Beneficial		
Common	Emmanuel B. Macalalag	10	10.00	Direct	Filipino	0.00%
Common	Joseph N. Pineda	10	10.00	Direct	Filipino	0.00%
Common	Winston A. Chan	10	10.00	Direct	Filipino	0.00%

Voting Trust Holders of 5% or more

None of SMFB's directors and officers own 5% or more of the outstanding capital stock of SMFB. No person holds 5% or more of SMFB's outstanding shares under a voting trust agreement.

Recent Issuances of Securities Constituting Exempt Transactions by the Company

On June 29, 2018, SMFB issued 4,242,549,130 new common shares to SMC in exchange for all of its 7,859,319,270 common shares in SMB and 216,972,000 common shares in GSMI. For further discussion on the issuance, please refer to "*Business—Corporate Structure and the SMFB Consolidation*".

Changes in Control

There is no provision in SMFB's articles of incorporation and by-laws which would delay, deter or prevent a change in control. There are no existing arrangements to which SMFB is a party or which are otherwise known to SMFB that may result in a change in control of SMFB.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, we enter into various transactions with related parties and affiliates, principally consisting of purchases of products and services, and sales of products. Our policy with respect to related party transactions is to ensure that these transactions are entered on an arm's length basis and entered into on terms comparable to those available from or to unrelated third parties, as the case may be. The Company also complies with the board and shareholder voting mechanisms provided under the Corporation Code and the relevant regulations of the SEC for related party transactions. In the case of interlocking directors, directors who are interested in the transactions to be approved abstain from voting thereon.

The following are the transactions with related parties and the outstanding balances as of September 30, 2019 and December 31, 2018:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate Parent Company	**September 30, 2019**	**₱157**	**₱1,269**	**₱58**	**₱328**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	112	1,895	140	251		
Entities under Common Control	**September 30, 2019**	**745**	**17,957**	**644**	**8,422**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	675	26,615	722	5,950		
Joint Venture	**September 30, 2019**	**15**	**433**	**628**	**7**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2018	21	1,036	543	64		
Retirement Plan	**September 30, 2019**	**-**	**-**	**-**	**23**	On demand; non-interest bearing	Unsecured
	December 31, 2018	-	-	-	305		
Associate of the Intermediate Parent Company	**September 30, 2019**	**-**	**-**	**-**	**3,784**	3 months or less; interest bearing	Unsecured
	December 31, 2018	-	-	-	5,352		
Shareholders in Subsidiaries and its Affiliates	**September 30, 2019**	**5**	**2,008**	**102**	**48**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	104	1,513	20	18		
Total	**September 30, 2019**	**₱922**	**₱21,667**	**₱1,432**	**₱12,612**		
Total	December 31, 2018	₱912	₱31,059	₱1,425	₱11,940		

Amounts owed by related parties consist of current and noncurrent receivables and deposits and share in expenses.

Amounts owed to related parties consist of trade and non-trade payables arising from management fees, professional fees, insurance and other services rendered by related parties.

The amounts owed to associate of the intermediate parent company represent interest bearing loans payable to BOC presented as part of "Notes Payable" account in the consolidated statements of financial position.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Bonds. The statements made regarding taxation in the Philippines are based on the laws in force at the date of this Prospectus and are subject to any changes in law occurring after such date. The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Bonds. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates or tax incentives under special laws. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the tax consequences of their investment in the Bonds.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines;" otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

The term "non-resident holder" means a holder of the Bonds:

- *who is an individual who is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and*
- *should an income tax treaty be applicable, whose ownership of the Bonds is not effectively connected with a fixed base or a permanent establishment in the Philippines.*

Philippine Taxation

On January 1, 2018, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" (TRAIN) Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax.

Taxation of Interest

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax.

Interest income on short-term bonds, with maturities of less than five (5) years derived by Philippine citizens and alien resident individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

Interest income on long-term bonds, with maturities of five (5) or more years, are generally exempt from final withholding tax. If such long-term bond is pre-terminated before the fifth (5^{th}) year, it shall be subject to a final withholding tax at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

Holding Period	Rate
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Early Redemption Option

Under the Terms and Conditions of the Offer, if any payment of principal or interest due under the Bonds becomes subject to additional or increased taxes other than the taxes and rates of such taxes prevailing as of the Issue Date as a result of any change in, or amendment to, the laws, rules or regulations of the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, rules or regulations (including but not limited to any decision by a court of competent jurisdiction) which change or amendment becomes effective on or after the Issue Date, and such additional or increased rate of such tax cannot be avoided by the use of reasonable measures available to the Issuer. The Issuer shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Bonds on any Interest Payment Date before Maturity Date at the applicable early redemption amount.

We suggest that the investor seek its own tax advisors to determine its tax liabilities or exposures given that the Issuer does not have gross-up obligations in case of changes in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated, which shall subject payments by the Bank to additional or increased taxes, other than the taxes and rates of such taxes prevailing as of the Issue Date.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

The tax authorities have prescribed certain procedures for availment of tax treaty relief on interest under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (CORTT) Form by the non-resident before interest is credited. The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within thirty (30) days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Bank, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate of ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Bank withheld taxes, or withheld the regular rate of tax imposed pursuant to the Tax Code on interest, the concerned bondholder may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty.

Value-Added Tax

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

Any gain realized from the sale, exchange or retirement of Bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 35%, 25%, or 30%, as the case may be. If the Bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the Bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds with an original maturity date of more than five years (as measured from the date of issuance of such bonds) shall not be subject to income tax. As the Bonds have a maturity of five (5) years for Series A and seven (7) years for Series B, any gains realized by a holder on the trading of the Bonds shall be exempt from income tax. However, any gains realized by a holder through redemption of the Bonds prior to the lapse of 5 years may be subject to income tax.

This is in view of the BIR's ruling that one of the conditions for the exemption is that the maturity period must be more than 5 years.

Moreover, any gain arising from such sale, regardless of the original maturity date of the Bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donors Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at 6%. A Bondholder shall be subject to donor's tax of 6% computed on the basis of the total gifts in excess of ₱250,000.00 exempt gift.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange, provided that such sale or disposition does not constitute a renewal or extension of maturity of the Bonds or carried with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones. However, if the transfer constitutes a renewal or extension of the maturity of the Bonds, documentary stamp tax is payable anew.

Taxation Outside the Philippines

The tax treatment of non-resident holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

PHILIPPINE FOREIGN OWNERSHIP AND FOREIGN EXCHANGE CONTROLS

The Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("**R.A. 8762**"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of the Retail Trade Liberalization Act, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling directly to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, foreign-owned partnerships, associations or corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI, or in the case of foreign owned single proprietorships, with the DTI, engage or invest in the retail trade business, under the following categories:

- Category A: Enterprises with paid-up capital that is less than the equivalent of US$2,500,000 in Pesos shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens.

- Category B: Enterprises with a minimum paid-up capital that is equivalent to US$2,500,000 in Pesos, but is less than US$7,500,000, may be wholly-owned by foreigners except for the first two years after the effectively of the Retail Trade Liberalization Act (wherein foreign participation was limited to not more than 60% of total equity).

- Category C: Enterprises with a paid-up capital that is equivalent to or more than US$7,500,000 in Pesos may be wholly owned by foreigners, provided that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent of US$830,000 in Pesos. Effective March 25, 2002, Category C ceased to be a permitted category.

- Category D: Enterprises specializing in high-end or luxury products with a paid-up capital that is equivalent to US$250,000 in Pesos per store may be wholly-owned by foreigners.

Any foreign investor may be allowed to invest in existing retail stores. However, the investment must comply with the paid-up capitalization requirements enumerated above.

Furthermore, foreign investors whom are also retailers and invest in existing retail stores are required to be pre-qualified with the Board of Investments before they can buy shares. No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

(1) A minimum of US$200 million net worth in its parent corporation for Categories B and C, and US$50 million net worth in its parent corporation for Category D;

(2) Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US$25 million;

(3) Five-year track record in retailing; and

(4) Only nationals from, or judicial entities formed or incorporated in countries which allow the entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines.

The implementing rules of Republic Act No. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers before they are allowed to conduct business in the Philippines.

Foreign Ownership Controls

Republic Act No. 7042, or the Foreign Investments Act of 1991, as amended ("**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners may own as much as 100% equity except in areas specified in the Foreign Investment Negative List. The Foreign Investment Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

- A citizen of the Philippines;
- A domestic partnership or association wholly-owned by citizens of the Philippines
- A corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- A corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- A trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation.

A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years. In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Land Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Registration of Foreign Investments and Foreign Exchange Regulations

Under current BSP regulations, an investment in listed Philippine securities (such as the Bonds) must be registered with the BSP if the foreign exchange needed to service the repayment of principal and payment of interest derived from such Bonds is to be sourced from the Philippine banking system. The registration with the BSP is evidenced by a Bangko Sentral Registration Document. Under BSP Circular No. 1030 dated February 5, 2019, debt securities, purchase of condominium units, capital expenses incurred by foreign firms pursuant to government approved-service contracts and similar contracts, and Philippine depositary receipts must likewise be registered with the BSP if foreign exchange will be sourced from the Philippine banking system.

If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. BSP Circular No. 471 (Series of 2005), as amended, however, subjects foreign exchange dealers, money changers and remittance agents to R.A. No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit, among others, the original BSP registration documents in connection with their application to purchase foreign exchange exceeding US$5,000.00 for purposes of capital repatriation and remittance of dividends. BSP Circular No. 942 (Series of 2017) lists minimum documentary requirements that must be submitted by foreign exchange buyers for purposes of capital repatriation and remittance of dividends, regardless of amount.

The foregoing is subject to the power of the BSP, through the Monetary Board, with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

The registration with the BSP of all foreign investments in the Bonds shall be the responsibility of the foreign investor.

LEGAL MATTERS

Certain legal matters as to Philippine law relating to the Offer will be passed upon by Picazo Buyco Tan Fider & Santos ("**Picazo Law**"), the Company's legal counsel, and SyCip Salazar Hernandez & Gatmaitan ("**Sycip Law**"), legal counsel to the Joint Lead Underwriters and Bookrunners. Each of the foregoing legal counsel has neither our shareholdings nor any right, whether legally enforceable or not, to nominate persons or to subscribe for our securities. None of the legal counsel will receive any direct or our indirect interest in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

Picazo Law and Sycip Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo Law and Sycip Law provide such services to its other clients.

INDEPENDENT AUDITORS

Independent Auditors

The consolidated financial statements of the Company as at and for the year ended December 31, 2018 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The comparative information as at and for the years ended December 31, 2017 and 2016, were audited by other auditors, and has been restated as a result of the retrospective application of the pooling interests method for the acquisition of San Miguel Brewery Inc. and Ginebra San Miguel Inc. by the Issuer which is considered a business combination of entities under common control.

The Audit Committee of the Company, reviews and monitors, among others, the integrity of all financial reports and ensures compliance with both internal financial management manual and pertinent accounting standards, including regulatory requirements. The Audit Committee also performs the following duties and responsibilities relating to the services of the Company's external auditors:

- Asses and monitor the (i) external auditor's professional qualifications, competence, independence and objectivity and require the external auditor to make the statements necessary under applicable auditing standards as regards its relationship and services to the Company, discussing any relationship or services which may derogate its independence or objectivity; and (ii) the effectiveness of the audit process in accordance with applicable standards.

- Obtain objective assurance from the external auditor that the conduct of the audit and the manner of the preparation of the financial statements comply with applicable auditing standards and rules of regulatory bodies, including exchanges on which the securities of the Company are listed.

- Review and approve the nature and scope of the audit plans of the external auditor, including scope, audit resources and expenses, and reporting obligations before the audit commences.

- Review the reports or communications of the external auditor and ensure that management or the Board will provide a timely response to the issues raised in such reports or communications.

- Ensure the development and implementation of policies on the engagement of an external auditor to supply non-audit work, including the fees payable therefor, and evaluate any non-audit work undertaken by the external auditor to ensure that the same does not conflict with its audit functions.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

SAN MIGUEL
FOOD AND BEVERAGE, INC.

ANNEX "B"

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 and 2017, 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 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 and 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 its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

EDUARDO M. COJUANGCO, JR.
Chairman of the Board

RAMON S. ANG
President and Chief Executive Officer

ILDEFONSO B. ALINDOGAN
Vice-President and Chief Finance Officer

Signed this 13th day of March 2019

ACKNOWLEDGEMENT

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

Before me, a Notary Public for and in Pasig City this 13th day of March 2019, personally appeared:

Name	Passport No.	Expiry Date/Place Issued
Eduardo M. Cojuangco, Jr.	P6769283A	April 12, 2028 / Manila
Ramon S. Ang	P4589066A	October 1, 2022 / Manila
Ildefonso B. Alindogan	P4964891A	November 6, 2022 / Manila

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

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

Doc. No. 210;
Page No. 43;
Book No. 17;
Series of 2019

MA. CELESTE J. LEGASPI
Notary Public for Pasig City
Commission until 31 December 2020
22nd Floor, JMT Corporate Condominium,
ADB Ave., Ortigas Center, Pasig City
APPT No. 67 (2019-2020)/Roll No. 47611
IBP No. 060595; 1/4/2019; RSM
PTR No. 5227212; 1/3/2019; Pasig City
MCLE Compliance No. V-0024162; 10/25/2016

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						1	1	8	4	0

COMPANY NAME

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

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
N/A	(02) 317-5000	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
258	May 11	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ildefonso B. Alindongan	N/A	(02) 317-5000	N/A

CONTACT PERSON's ADDRESS

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

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(With Comparative Figures for 2017 and 2016)

KPMG

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.

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.

KPMG

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.

- 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.

KPMG

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 Paid-in	Equity Adjustments from Common	Reserve for Retirement	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Control Transactions	Plan	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	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.

	Note	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Other Equity Reserves					Retained Earnings		Treasury Stock		Total		
		Common	Preferred			Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve		Appro-priated	Unappro-priated	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.

	Note	Capital Stock Common	Capital Stock Preferred	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Other Equity Reserves: Reserve for Retirement Plan	Other Equity Reserves: Fair Value Reserve	Other Equity Reserves: Translation Reserve	Other Equity Reserves: Other Equity Reserve	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Treasury Stock Common	Treasury Stock Preferred	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company														
As at January 1, 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 and 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 and 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:

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

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

	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities Under Common Control: Consolidated Statement of 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

	Consolidated Statement of Comprehensive Income of SMFB, As Reported	Adjustments from the Retrospective Application of Pooling of Interests Method for Business Combinations of Entities under Common Control: Consolidated Statement of 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 CO_2 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:

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Change in Accounting Policy	December 31, 2018 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)**

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Change in Accounting Policy	December 31, 2017 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 of December 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%**	**6.60-8.348%**	**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.

<u>Financial and Other Risks Relating to Livestock</u>
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, is 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.

ANNEX "B-1"

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 TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Food and Beverage, Inc. *(Formerly San Miguel Pure Foods Company Inc.)* (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 13, 2019.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2018
(Amounts in Millions, except Number of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at December 31, 2018	Income (Loss) Received and Accrued
Cash and cash equivalents	-	P39,425	P39,425	P1,157
Trade and other receivables - net	-	19,554	19,554	21
Derivative assets	-	76	76	(136)*
Financial Assets at Fair Value Through Other Comprehensive Income	90,731	59	59	1
Noncurrent receivables and deposits - net	-	526	526	-
	90,731	**P59,640**	**P59,640**	**P1,043**

**This represents net marked-to-market losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as at year-end.*

See Notes 33 and 34 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A's FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
DECEMBER 31, 2018
(Amounts in Millions, except Number of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at December 31, 2018
San Miguel Pure Foods Company Inc.		
Club Filipino	1	P -
Makati Sports Club, Inc.	1	1
Philippine Long Distance Telephone Company	325	-
Valle Verde Country Club, Inc.	1	-
Manila Electric Company	14,895	-
San Miguel Foods, Inc.		
Club Filipino	1	-
Makati Sports Club, Inc.	1	1
Philippine Long Distance Telephone Company	3,928	-
The Manila Southwoods Golf & Country Club, Inc.	1	1
Sta Elena Golf Club	1	6
Manila Electric Company	51,165	1
Tagaytay Highland Golf and Country Club	1	1
Royal Tagaytay Country Club	1	-
The Orchard Golf & Country Club	1	-
Magnolia, Inc.		
Alabang Country Club, Inc.	1	7
The Purefoods-Hormel Company, Inc.		
Capitol Hills Golf and Country Club, Inc.	1	-
PT San Miguel Pure Foods Indonesia		
Golf Club Bogor Raya	1	-
Neptunia Corporation		
HSBC Holdings	20,400	9
San Miguel Brewery Hong Kong		
Hong Kong Arts Centre Ltd.	1	-
The Pacific Club Kowloon	1	7
The American Club Hong Kong	1	9
Hong Kong Football Club	1	7
Discovery Bay Golf Club	1	9
Total Financial Assets at Fair Value Through Other Comprehensive Income	**90,731**	**P59**

See Note 13 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CUMULATIVE TRANSLATION RESERVE/ RECLASSIFICATIO N/OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NON CURRENT	ENDING BALANCE
San Miguel Foods, Inc.	P21	P106	(P101)	P -	P26	P26	P -	P26
The Purefoods-Hormel Company, Inc.	1	2	(1)	-	2	2	-	2
San Miguel Mills, Inc.	1	1	(1)	-	1	1	-	1
Magnolia, Inc.	1	1	(1)	-	1	1	-	1
San Miguel Brewery, Inc. and Subsidiaries	18	20	(19)	-	19	19	-	19
Ginebra San Miguel, Inc. and Subsidiaries	5	8	(9)	-	4	4	-	4
	P47	**P138**	**(P132)**	**P-**	**P53**	**P53**	**P-**	**P53**

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CUMULATIVE TRANSLATION RESERVE/ RECLASS/OTHERS	AMOUNTS PAID/DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NON CURRENT	ENDING BALANCE
San Miguel Foods, Inc.	P6	P8	(P7)	P -	P7	P7	P -	P7
The Purefoods-Hormel Company, Inc.	3	8	(4)	-	7	7	-	7
San Miguel Super Coffeemix Co., Inc.	5	1	(5)	-	1	1	-	1
Magnolia, Inc.	2	2	(2)	-	2	2	-	2
San Miguel Brewery, Inc.	19	94	(90)	-	23	23	-	23
Ginebra San Miguel, Inc.	11	15	(13)	-	13	13	-	13
	P46	**P128**	**(P121)**	**P-**	**P53**	**P53**	**P-**	**P53**

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2018
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Other Changes/ Reclassification/ (Disposal)	Charged to Costs and Expenses	Cumulative Translation Reserve	Ending Balance
Cost:						
Trademarks and brand names	P37,576	P-	P-	P-	P96	P37,672
Licenses	2,013	-	-	-	122	2,135
Computer software and licenses	1,333	25	12	-	4	1,374
Goodwill	996	-	-	-	-	996
Formulas and recipes and franchise	65	-	-	-	-	65
Leasehold rights	1,853	-	-	-	58	1,911
	43,836	25	12	-	280	44,153
Accumulated Amortization:						
Computer software and licenses	1,158	81	(2)	-	3	1,240
Leasehold rights	656	42	-	-	18	716
	1,814	123	(2)	-	21	1,956
Accumulated Impairment Losses:						
Trademarks and brand names	228	-	-	-	11	239
Computer software and licenses	6	-	-	-	-	6
Leasehold rights	6	-	-	-	-	6
	240	-	-	-	11	251
Carrying Amount	**P41,782**	**(P98)**	**P14**	**P-**	**P248**	**P41,946**

See Note 16 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2018
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Other Changes/ Reclassification/ (Disposal)	Charged to Costs and Expenses	Cumulative Translation Reserve/ Fair Value Reserve	Ending Balance
Costs:						
Deferred Containers	P28,157	P7,399	(P392)	P-	P1	P35,165
Noncurrent receivables and deposits	738	-	(49)	1	-	690
Noncurrent prepaid input tax	285	-	70	-	-	355
Pallets and crates	408	336	63	(220)	1	588
Idle assets	1,953	-	(13)	-	52	1,992
Noncurrent prepaid rent	37	-	126	-	-	163
Others - net	307	616	178	(112)	1	990
	31,885	8,351	(17)	(331)	55	39,943
Accumulated Amortization:						
Deferred Containers	16,050	2,610	(433)	-	6	18,233
Noncurrent receivables and deposits	164	-	-	-	-	164
Idle Assets	1,889	8	(12)	-	52	1,937
	18,103	2,618	(445)	-	58	20,334
Other Noncurrent assets - Net	**P13,782**	**P5,733**	**P428**	**(P331)**	**(P3)**	**P19,609**

See Note 17 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE E - Long Term Debt
DECEMBER 31, 2018
(Amounts in Millions)

Title of Issue	Agent/Lender	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Non-current Portion of Debt	Non-current Transaction Costs	Amount Shown as Non-current	Current and Long term Debt	Interest Rate	Number of Periodic Installments	Interest Payments	Final Maturity
Fixed	Philippine Depository and Trust Corp.	P2,810	P2,810	(P1)	P2,809	P -	P -	P -	P2,809	10.50%	Bullet	Semi-annual	April 3, 2019
Fixed	Philippine Depository and Trust Corp.	10,000	10,000	(5)	9,995				9,995	5.93%	Bullet	Semi-Annual	April 2, 2019
Fixed	Philippine Depository and Trust Corp.	7,000				7,000	(29)	6,971	6,971	6.60%	Bullet	Semi-Annual	April 2, 2022
Fixed	Philippine Depository and Trust Corp.	12,462				12,462	(45)	12,417	12,417	5.50%	Bullet	Semi-Annual	April 2, 2021
Fixed	Philippine Depository and Trust Corp.	2,538				2,538	(15)	2,523	2,523	6.0%	Bullet	Semi-Annual	April 2, 2024
Fixed	Union Bank of the Philippines	1,000	118	(2)	116	882	(5)	877	993	5 Year PDST-R2 as published in PDex a day prior to the initial Drawdown Date plus a spread of 90 bps divided by a premium factor to be set by the bank on Drawdown Date or floor rate of 6% per annum with interest setting date of one (1) banking day prior to availment, whichever is higher.	Seventeen (17) equal quarterly amortizations commencing on the fourth (4th) quarter from the initial drawdown date	Quarterly	September 24, 2023
		P35,810	**P12,928**	**(P8)**	**P12,920**	**P22,882**	**(P94)**	**P22,788**	**P35,708**				

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2018

Description	Number of Shares Authorized	Number of Shares Issued	Share Swap Transaction	Stock Split	Treasury Shares	Shares Issued and Outstanding	Number of Shares Held: Related Party	Number of Shares Held: Directors and Officers	Number of Shares Held: Others
Common Shares	11,600,000,000	170,874,854	4,242,549,130	1,537,873,686	42,077,580	5,909,220,090	5,245,082,440	110	664,137,540
Preferred Shares	40,000,000	30,000,000	-	-	15,000,000	15,000,000	-	-	15,000,000
Total	**11,640,000,000**	**200,874,854**	**4,242,549,130**	**1,537,873,686**	**57,077,580**	**5,924,220,090**	**5,245,082,440**	**110**	**679,137,540**

See Note 21 of the Notes to the Consolidated Financial Statements.

SAN MIGUEL FOOD AND BEVERAGE, INC.
***(Formerly San Miguel Pure Foods Company Inc.)* AND SUBSIDIARIES**
AGING OF ACCOUNTS RECEIVABLE
AS OF DECEMBER 31, 2018
(In Millions)

Type of Receivable:	Total	Current	1-30 days	31-60 days	61-90 days	Over 90 days
A. Trade	P17,573	P12,070	P3,332	P482	P247	P1,442
Less: Allowance	866	12	10	3	-	841
Net Trade Receivable	16,707	12,058	3,322	479	247	601
B. Non-Trade	3,225	1,285	225	226	94	1,395
Less: Allowance	378	19	4	14	3	338
Net Non-Trade Receivable	2,847	1,266	221	212	91	1,057
Net Receivables	**P19,554**	**P13,324**	**P3,543**	**P691**	**P338**	**P1,658**

ANNEX "B-2"

KPMG

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 TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Food and Beverage, Inc. *(Formerly San Miguel Pure Foods Company Inc.)* (the Company) as at and for the year ended December 31, 2018, on which we have rendered our report dated March 13, 2019.

Our audit was made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

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

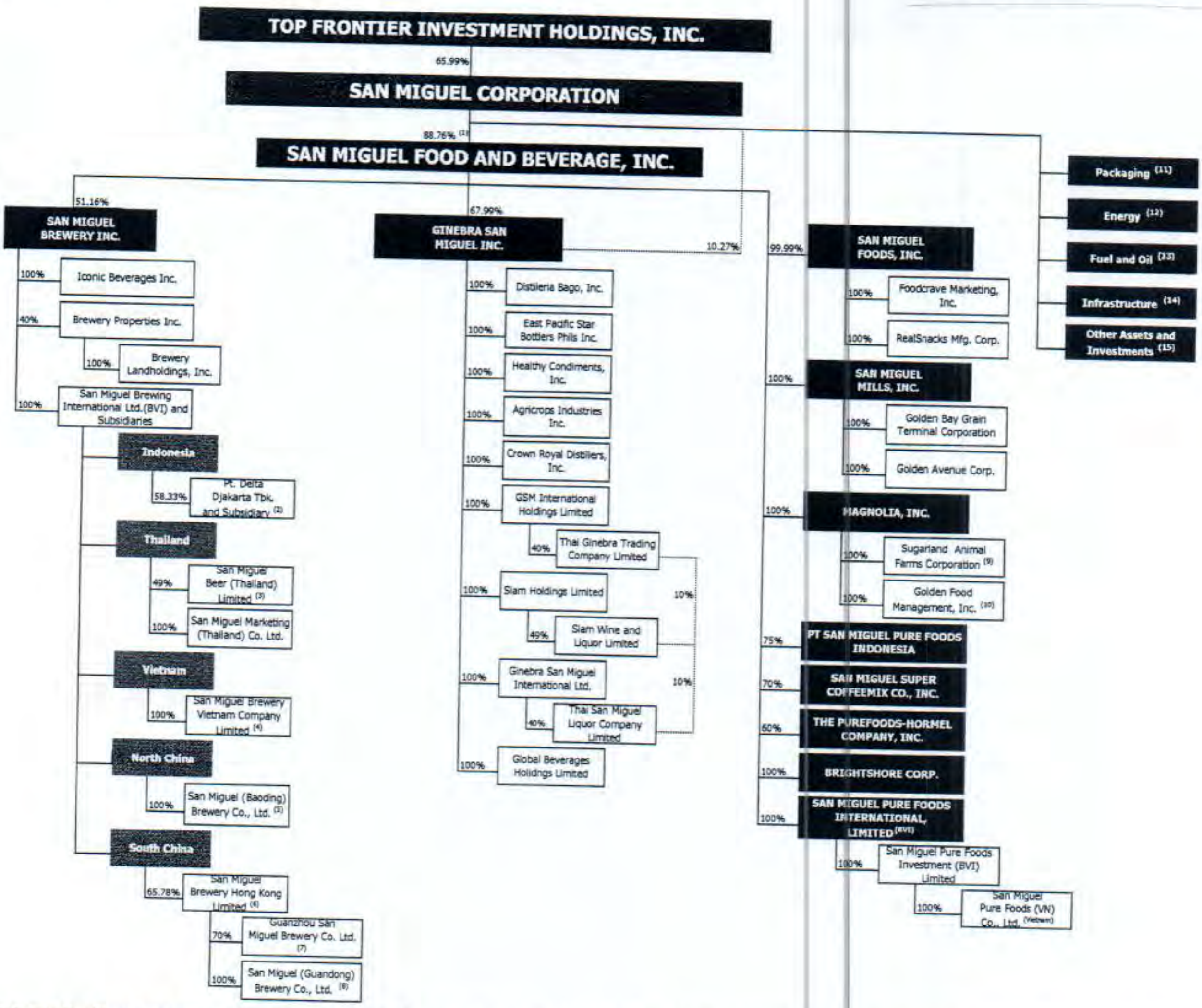
March 13, 2019
Makati City, Metro Manila

SAN MIGUEL FOOD AND BEVERAGE, INC.
(Formerly San Miguel Pure Foods Company Inc.)
(A Subsidiary of San Miguel Corporation)
23rd Floor, The JMT Corporate Condominium
ADB Avenue Ortigas Center, Pasig City
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands)

Unappropriated Retained Earnings, beginning		**P3,393,150**
Adjustments:		
Accumulated impairment loss on investment in a subsidiary	P942,151	
Treasury common stock	(182,094)	
Deferred tax asset	(154)	
Unrealized foreign exchange gain	(3,890)	**756,013**
Retained Earnings, beginning as adjusted		**4,149,163**
Net Income based on the face of financial statements	4,471,694	
Non-actual gain:		
Benefit from deferred income tax	(106,020)	
Unrealized foreign exchange gain	(372)	**4,365,302**
Net Income Actual/Realized		**8,514,465**
Dividend declaration during the year		**(6,242,579)**
Retained Earnings, ending as adjusted		**P2,271,886**

SAN MIGUEL FOOD AND BEVERAGE, INC.
MAP OF THE CONGLOMERATE
DECEMBER 31, 2018

ANNEX "B-3"



The structure includes the ultimate parent company, Top Frontier Investment Holdings, Inc. and the intermediate parent company, San Miguel Corporation with it's major subsidiaries, associates and joint ventures.

I. San Miguel Food and Beverage, Inc.

1. *Excluding issued and outstanding series "2" preferred shares*
2. *Owned thru San Miguel Malaysia Pte. Ltd.*
3. *Owned thru San Miguel Holdings (Thailand) Limited*
4. *Owned thru Dragon Island Investments Limited and San Miguel (Vietnam) Limited*
5. *Owned thru San Miguel Brewing International Limited and San Miguel (China) Investment Company Limited*
6. *Owned thru Neptunia Corporation Limited.*
7. *Owned thru San Miguel (Guangdong) Limited (93%)*
8. *Owned thru San Miguel Shunde Holdings Limited (92%)*
9. *Formerly Sugarland Corporation*
10. *Formerly Golden Food & Dairy Creamery Corporation*

II. Co-Subsidiaries

11. *Packaging includes San Miguel Yamamura Packaging Corporation and subsidiaries, San Miguel Yamamura Asia Corporation, Mindanao Corrugated Fibreboard, Inc., and San Miguel Yamamura Packaging International Limited and subsidiaries.*
12. *Energy includes SMC Global Power Holdings Corp., its associate, Mariveles Power Generation Corporation, and subsidiaries, including San Miguel Energy Corporation and subsidiaries, South Premiere Power Corp., Strategic Power Devt. Corp., SMC Consolidated Power Corporation, San Miguel Consolidated Power Corporation, San Miguel Electric Corp., SMCGP Masin Pte. Ltd. and subsidiaries, SMCGP Philippines Inc., SMCGP Transpower Pte. Ltd., and PowerOne Ventures Energy Inc. and its joint ventures, Angat Hydropower Corporation and KWPP Holdings Corporation.*
13. *Fuel and Oil includes SEA Refinery Corporation and subsidiary, Petron Corporation and subsidiaries, including Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., and Petron Oil & Gas International Sdn. Bhd. and subsidiaries Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia).*
14. *Infrastructure includes San Miguel Holdings Corp. and subsidiaries, including Vertex Tollways Devt. Inc., Manila North Harbour Port, Inc., Trans Aire Development Holdings Corp., Private Infra Dev Corporation, Universal LRT Corporation (BVI) Limited, Atlantic Aurum Investments BV and subsidiaries, Cypress Tree Capital Investments, Inc. and subsidiaries, and Luzon Clean Water Development Corporation.*
15. *Other Assets and Investments include San Miguel Properties, Inc. and subsidiaries and associate, Bank of Commerce, SMC Shipping and Lighterage Corporation and subsidiaries, San Miguel Equity Investments Inc. and subsidiaries, including Northern Cement Corporation and San Miguel Northern Cement Inc., and SMC Asia Car Distributors Corp.*

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation*			
	Amendments to PFRS 3: Definition of a Business*			
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation*			
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases*			
PFRS 17	Insurance Contracts*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material*			
PAS 2	Inventories	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material*			
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Income tax consequences of payments on financial instruments classified as equity*			
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement*			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Borrowing costs eligible for capitalization*			
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	✓		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments*			
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs	✓		
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✓		
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for collector's items	✓		
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	✓		
PIC Q&A 2018-01	PAS 8 - Voluntary changes in accounting policy	✓		
PIC Q&A 2018-02	PAS 36 - Non-controlling interests and goodwill impairment test	✓		
PIC Q&A 2018-03	PFRS 13, PAS 16 and PAS 36 - Fair value of property, plant and equipment and depreciated replacement cost			✓
PIC Q&A 2018-04	PAS 41 - Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture	✓		
PIC Q&A 2018-05	PAS 37 - Liability arising from maintenance requirement of an asset held under lease	✓		
PIC Q&A 2018-06	PAS 27 - Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-07	PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements	✓		
PIC Q&A 2018-08	PFRS 10 and PFRS 3 - Accounting for the acquisition of non-wholly owned subsidiary that is not a business	✓		
PIC Q&A 2018-09	PAS 21 - Classification of deposits and progress payments as monetary or non-monetary items	✓		
PIC Q&A 2018-10	PAS 2 - Scope of disclosure of inventory write-downs	✓		
PIC Q&A 2018-11	Classification of land by real estate developer			✓
PIC Q&A 2018-12	PFRS 15 Implementation issues affecting the real estate industry			✓
PIC Q&A 2018-13	Conforming Changes to PIC Q&As - Cycle 2018	✓		
PIC Q&A 2018-14	PFRS 15 - Accounting for Cancellation of Real Estate Sales			✓
PIC Q&A 2018-15	PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	✓		
PIC Q&A 2018-16	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	✓		

__Legend:__

Adopted *- means a particular standard or interpretation is relevant to the operations of the Group (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.*

Not Adopted *- means a particular standard or interpretation is effective but the Group did not adopt it due to either of these two reasons: 1) The Group has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the Group decided otherwise.*

Not Applicable *- means the standard or interpretation is not relevant at all to the operations of the Group.*

**These standards, amendments or interpretations will become effective subsequent to December 31, 2018. The Group will adopt these new and amended standards and interpretations on the respective effective dates.*

ANNEX "B-4"

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

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

FINANCIAL SOUNDNESS INDICATORS

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

KPI	As of December 31, 2018	As of December 31, 2017
Liquidity: Current Ratio	1.28	1.69
Solvency: Debt to Equity Ratio Asset to Equity Ratio	0.83 1.83	0.79 1.79
Profitability: Return on Average Equity Attributable to Equity Holders of the Parent Company Interest Rate Coverage Ratio	25.53% 15.46	28.04% 16.00
	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Operating Efficiency: Volume Growth Revenue Growth Operating Margin	8.92% 13.83% 16.05%	8.38% 10.70% 16.85%

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

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

* *Annualized for quarterly reporting; excluding cash dividends paid to preferred shareholders*
** *Excluding preferred capital stock and related additional paid-in capital*