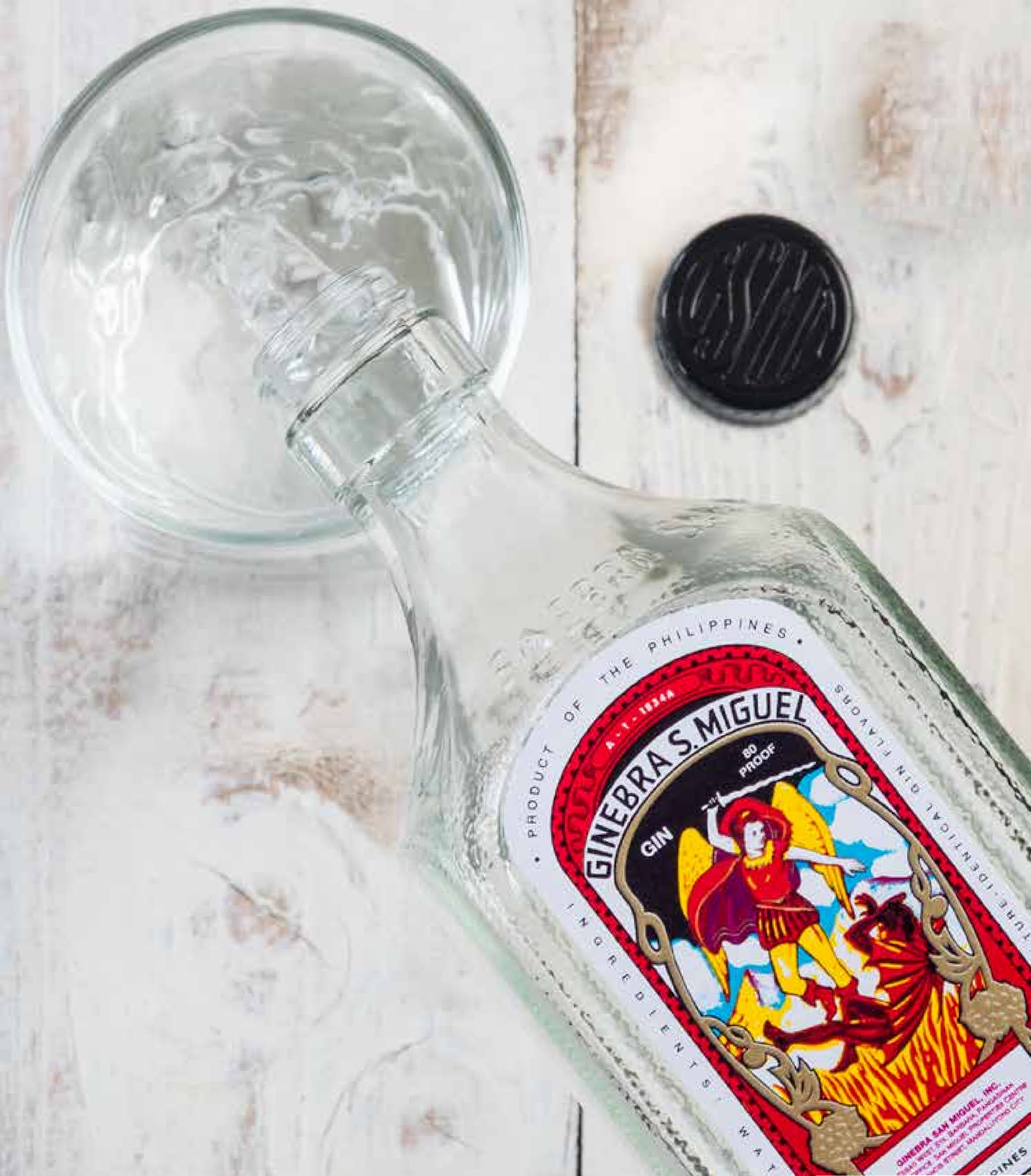
GINEBRA SAN MIGUEL INC.

GINEBRA AKO.

2017 ANNUAL REPORT



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FINANCIAL HIGHLIGHTS

IN THOUSAND PESOS, EXCEPT PER SHARE DATA

NET REVENUE

2017	20,892,379
2016	18,572,497

NET INCOME

2017	602,243
2016	361,385

BASIC EARNINGS PER SHARE

2017	1.93
2016	1.09

STOCKHOLDERS' EQUITY

2017	5,013,933
2016	4,430,737

STOCKHOLDERS' EQUITY PER SHARE*

2017	15.71
2016	13.88

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

GINEBRA AKO

MESSAGE TO STOCKHOLDERS

OUR RALLYING CRY FOR 2018 CAPTURES OUR BULLISHNESS ABOUT OUR COMPANY AND OUR GROWTH PROSPECTS.

PILIPINO AKO! MATAPANG AKO! GINEBRA AKO!

It has been a year of significant progress for Ginebra San Miguel Inc. (GSMI). For the fourth consecutive year, we're reporting strong overall growth for our business. We've succeeded in regaining a number of key markets and have also made headway in establishing for ourselves a stronger presence in areas where competition has been fierce. Through innovative marketing campaigns designed to win over new consumers and encourage greater consumption per sitting, we managed to wrest away significant market share from our closest competitor. As a result, by December 2017, the Nielsen Audit Report showed we had grown our share of the industry by 2 percentage points in 2017 versus 2016*—a clear indication that our strategy, our programs, and all of our hard work, have finally paid off.

Our performance these past four years demonstrates our focus on disciplined execution. It's this focus that has allowed us to deliver a better bottom line for the company. Volumes are up for four consecutive years. In 2017, consolidated revenues increased 12 percent to P20.9 billion. Net income rose 67% to P602 million—the highest recorded in the last seven years.

During the past year, we devoted considerable resources to mitigate the mounting cost of input materials, particularly, of our major cost drivers—alcohol and bottles. We worked at advancing our capability to increase alcohol yield at our distillery. In the area of raw material sourcing, we sought out more economical sources of molasses and alcohol. We also expanded our second-hand bottle supply network. These moves have had a significant impact on our operations and have stabilized our margins.

For 2018, we will continue to work on building brand equity, improving the distribution of key brands, and extracting more efficiency throughout our supply chain.

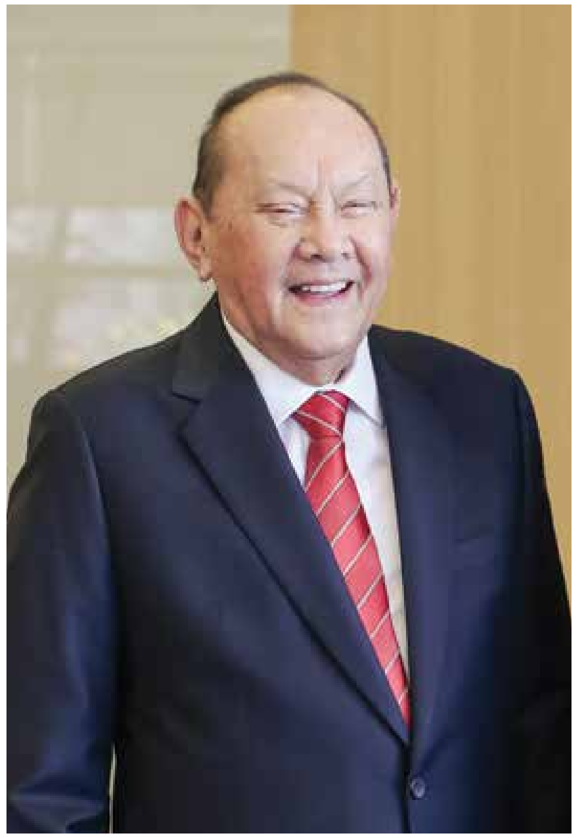
Over the medium to longer term, we're looking to expand our already formidable portfolio of products, which includes gin, Chinese wine, vodka, brandy, and rum. Our flagship, Ginebra San Miguel, which has helped spark a resurgence in gin consumption, will be our passport into new markets and future growth opportunities—including international markets.

Our rallying cry for 2018 captures our bullishness about our company and our growth prospects: "Pilipino Ako! Matapang Ako! Ginebra Ako!".

Taking inspiration from the truly Filipino—and truly Ginebra—trait of drawing strength and courage from within in times of great adversity, it also serves to amplify how each of us—employees, shareholders, dealers, trade partners—can serve as a driving force for GSMI. It's through our collective strength and resolve that our company will be able to deliver even more profitable and durable growth in the years ahead.

EDUARDO M. COJUANGCO JR.
Chairman & CEO

EMMANUEL B. MACALALAG
General Manager



*Nielsen FMCG2017 Retail Index

GIN CONQUERS ALL

In today's multimedia-driven world, communicating to our consumers—and more importantly, creating a connection with them amidst all the noise and clutter—has become more challenging than ever before.

But for us at Ginebra San Miguel, staying true to our message has always been key.

In 2017, our core slogan "Ganado sa Buhay" continued to resonate with our markets, as we carried it through campaigns across all platforms, from broadcast, print, social, to down-the-line promotions, activations, and brand events.

"Ganado sa Buhay" reflects an enthusiastic and can-do attitude towards facing the daily challenges of life. Adopted by our flagship brand Ginebra San Miguel in 2014, it has helped spark a resurgence in gin that has allowed us to capture a large chunk of the hard liquor market.

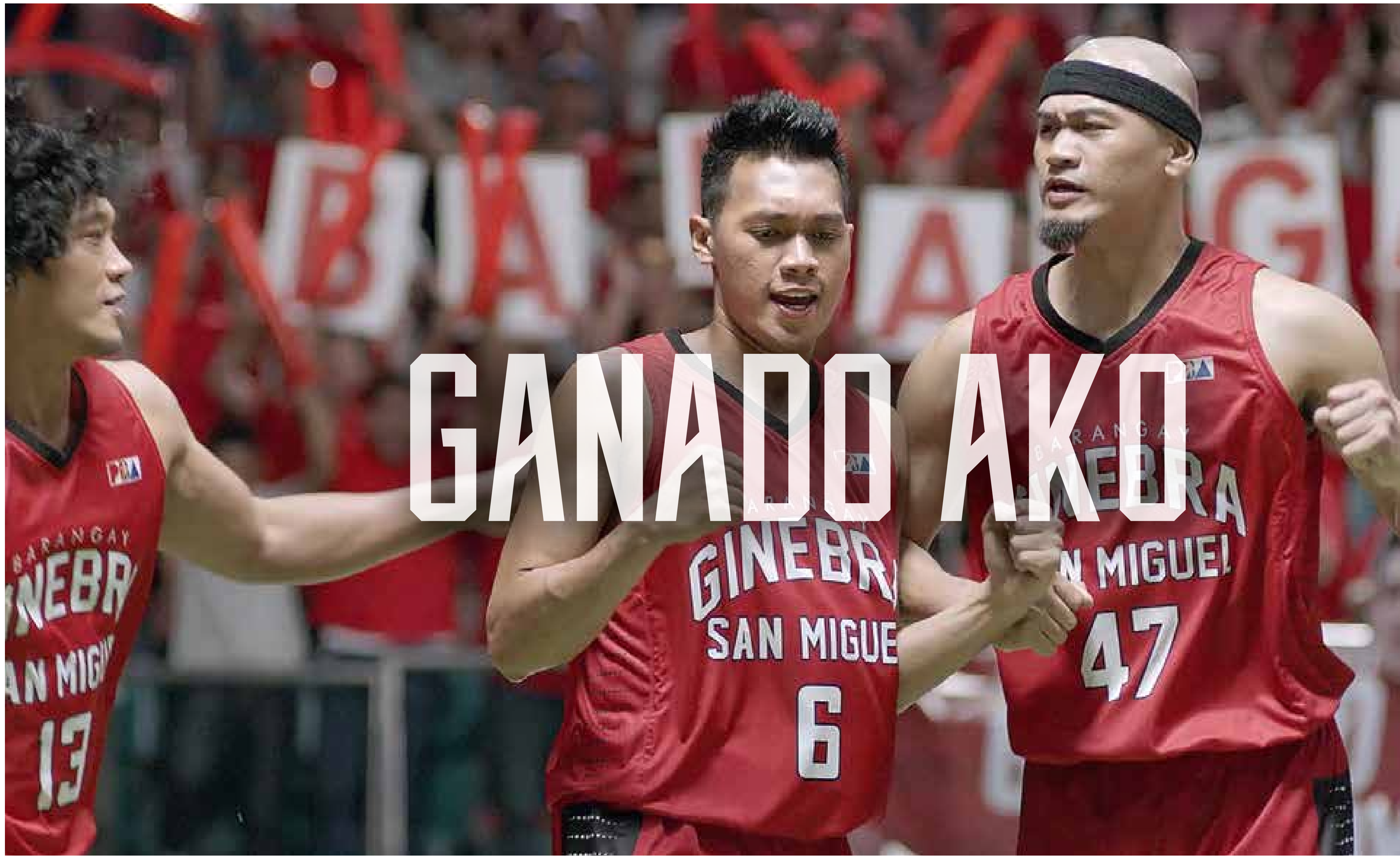
Our overall campaign was bannered by the Ginumanfest concert series, which landed in Alaminos, Pangasinan; Calapan City, Mindoro; Cauayan, Isabela; Kalibo, Aklan; Legaspi City, Albay; Bacnotan, La Union; Virac, Catanduanes, and Cavite, attracting crowds by the thousands.

Equally important was our annual celebration of World Gin Day in this part of the world. Our flagship, Ginebra San Miguel, tapped Miss Universe contestant Jamie-Lee Faulkner of Great Britain—the place of origin of the festival, which was first celebrated in June 2003. Ginebra San Miguel extended the celebration all throughout the month of June, with events held in key cities all over the country, including Manila, Quezon City, Bataan, Batangas, Cebu, Davao, Tacloban, and Boracay.

To show GSM Blue's flexibility as a drink mixer, GSM Blue Fast Mixes were introduced as welcome drinks for tourists going through the Caticlan Airport. Meanwhile, GSM Premium Gin handcrafted cocktails were featured as Drinks of the Month at the Edsa Shangri-La Manila.

Undoubtedly, basketball and the Barangay Ginebra Gin Kings continue to provide us significant brand equity and marketing mileage. Our youth basketball program with the Philippine Basketball Association (PBA), dubbed Ginebra San Miguel 3-on-3 Basketball Tournament, marked its second year of cultivating the talent of young, aspiring athletes.

From 256 teams in the regional qualifiers, the list was trimmed to 16 regional semi-finalists. The top 2 teams then competed for the championship at the 3-on-3 National Finals at the Smart Araneta Coliseum in October, in front of thousands of basketball fans. Team Camsur bagged the title after a fiercely-fought contest against Team La Union.



'Ganado sa Buhay' TV commercial featuring Barangay Ginebra players Jayjay Helterbrand, Scottie Thompson and Mark Caguioa.

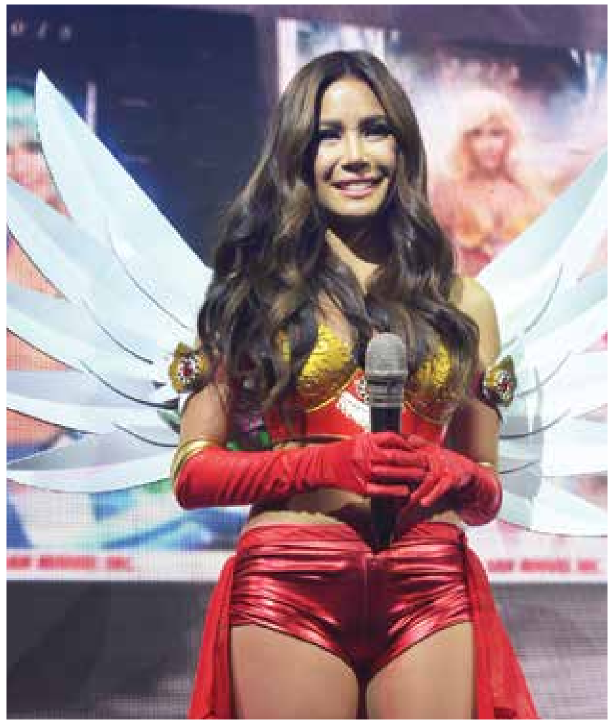
In 2017, Ginebra San Miguel also launched what has since become its most successful promotion to date: the Ganado Classics 3-Decade Jersey Collection promo, which ran from May to August, in celebration of 30 years of the Gin Kings. Through the promo, fans were given a chance to own jerseys that were part of defining moments in Ginebra basketball history.

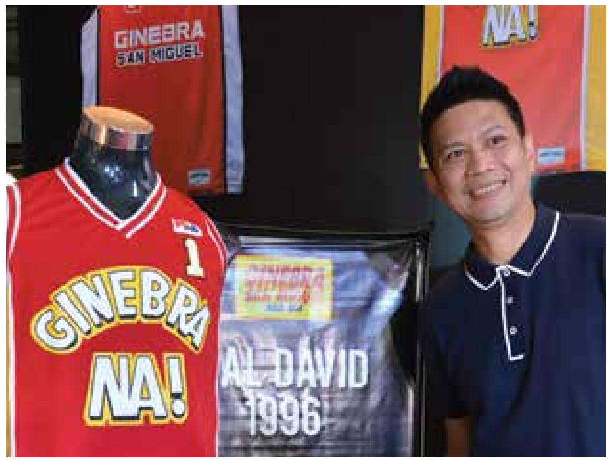
The five jerseys featured the names and numbers of legendary and current Ginebra players: (Robert) Jaworski 7 for the first edition, "Never Say Die" jerseys; (Bal) David 1 for "Ginebra Na!"; (Mark) Caguioa 47 for "Barangay Ginebra Gin Kings", and (Scottie) Thompson 6 for "Barangay Ginebra San Miguel". Fans lined up in droves to get their hands on the collectible jerseys. The 3-Decade Classic Jersey Collection Promo is now GSMI's most successful promo, with a 93% redemption rate.

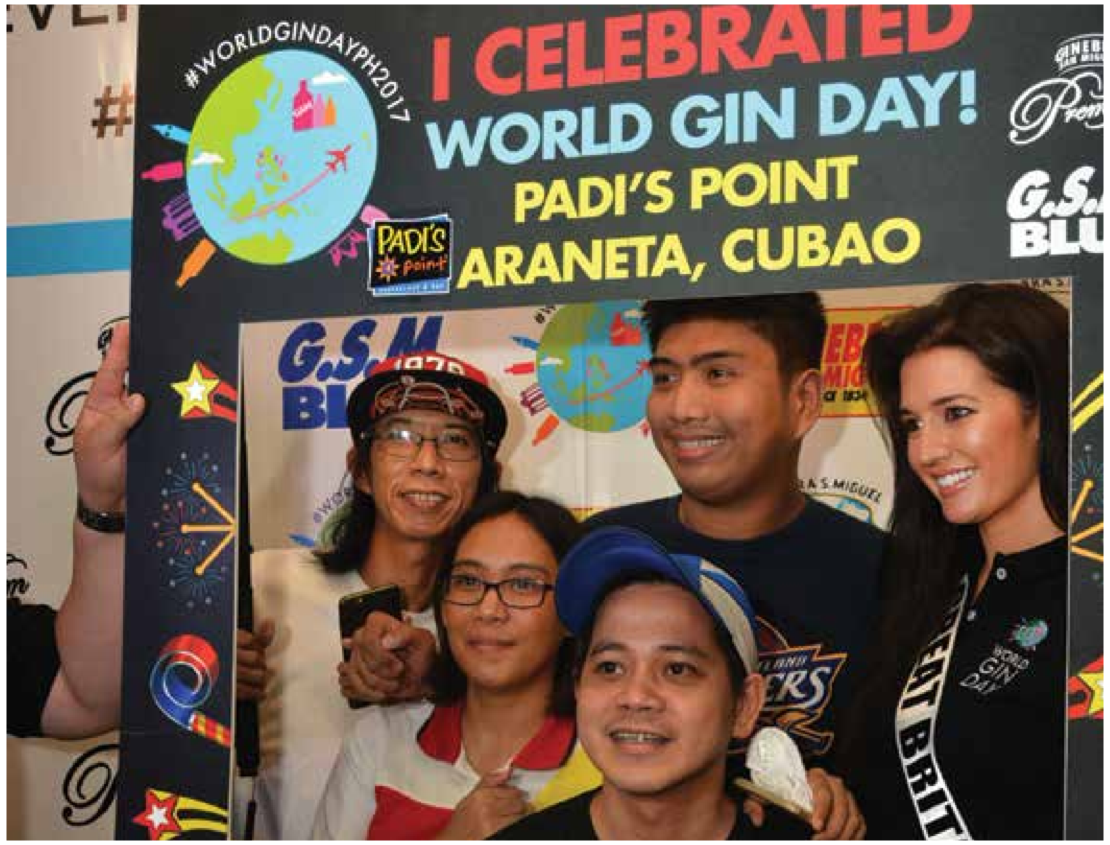
Before the end of 2017, we also launched two new ready-to-drink gin variants: GSM Blue Flavors Gin Pomelo—based on the popular Pinoy concoction "Gin Pom"—and Margarita, a classic cocktail drink that originated in Mexico. Top cosplayer Myrtle Sarrosa was tapped as the brand endorser, as she represents the young, millennial market the brand is targeting.

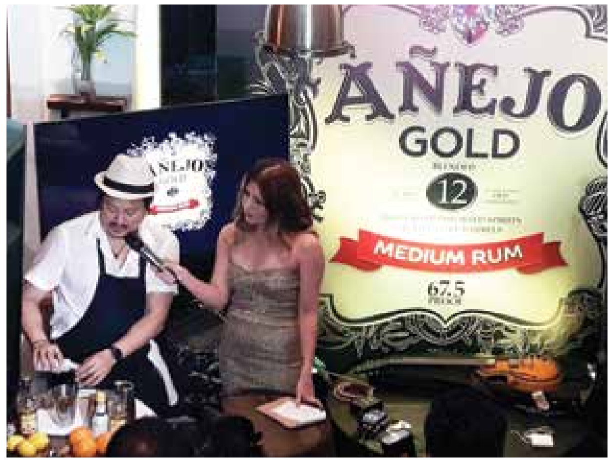
She is also the face of GSM Blue's new campaign, "Mix for More", and is the current Ginebra San Miguel 30th edition Calendar Girl. The former Pinoy Big Brother winner joins

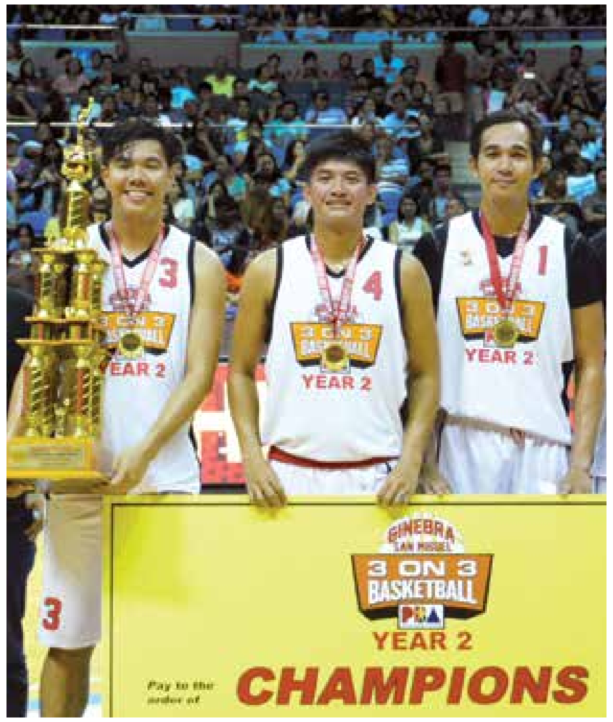
GINEBRA AKO











Shown in photos (clockwise) Calendar Girl launch featuring cosplayer/actress Myrtle Sarrosa, 3-Decade Classic Jersey Collection promo launch with former Barangay Ginebra player Bal David, World Gin Day celebration with Miss Universe Great Britain Jamie-Lee Faulkner, 3-on-3 Basketball Tournament champion Team Camsur, and Añejo Gold Medium Rum media launch.

GSMI WILL CONTINUOUSLY STRIVE TO BE **A STEP AHEAD OF THE COMPETITION** TO LEAD THE LOCAL LIQUOR MARKET WITH WORLD-CLASS PRODUCTS AND SERVICES THAT WILL MAKE US **PROUD TO BE FILIPINOS**

the ranks of popular actresses and models who have graced Ginebra San Miguel calendars, which include Anne Curtis, Georgina Wilson, Solenn Heusaff, Arci Muñoz, and Marian Rivera.

All these activities helped Ginebra San Miguel reclaim dominance of gin bailiwicks in North and South Luzon.

In the Philippines' southern region, Vino Kulafu continued to be a strong player in the Visayas and Mindanao markets. On its 60th anniversary, the brand marked two major milestones: its first Silver Quality Label award from the Monde Selection International Institute for Quality Selections, and recognition as one of the world's largest selling brands in the annual list of The Millionaires' Club, compiled by leading global drinks journal, Drinks International.

Vino Kulafu, which has broad appeal among consumers, nevertheless sought to increase its following among younger drinkers through the launch of a new radio advertisement and new cocktail recipes called "KulMix".

Recognizing the growing popularity of rum both domestically and overseas, we reintroduced the Añejo brand in select areas in Visayas and Mindanao. The brand has been received well by both older fans and younger drinkers who are curious to sample a well-regarded and familiar brand.

Finally, at the tail end of 2017, we unveiled a new campaign that builds on "Ganado sa Buhay" and also serves as the company's current battle cry: "Ginebra Ako!". This campaign takes the very same attributes associated with our flagship and espoused by our employees—courage, passion, optimism, and the never-say-die spirit—to create a deeper connection with consumers, who are at the heart of our business.

We will continue to strive to be a step ahead of the competition, to lead the local liquor market, and provide consumers with world-class products we can all be proud of.

GINEBRA AKO

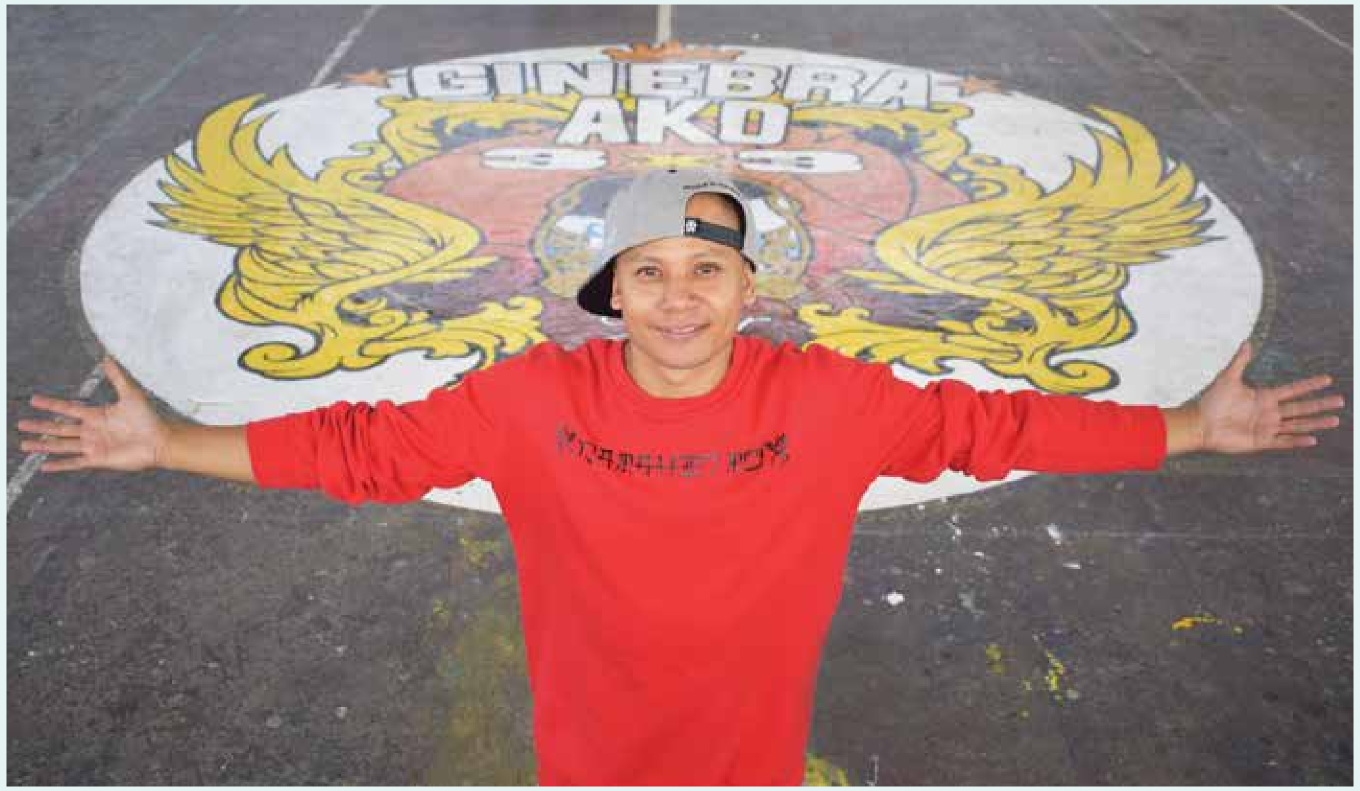
GSMI'S FLAGSHIP GINEBRA SAN MIGUEL USHERED IN A NEW CAMPAIGN AT THE CLOSE OF 2017—'GINEBRA AKO' —TRANSITIONING FROM THE HIGHLY SUCCESSFUL 'GANADO SA BUHAY' WHICH HAS BEEN A CONSTANT SINCE 2014.

In 'Ginebra Ako', the brand has taken on a deeper purpose. More than keeping relevant, it has evolved into becoming a source of pride, a source of hope. Filipinos are known all over the world for their courage, passion, optimism, and never-say-die spirit, qualities which the Ginebra San Miguel brand champions and celebrates in "Ginebra Ako". We raise a toast to unsung heroes and their triumphs—the hardworking Filipino who never backs down from challenges and whose sacrifices and selfless acts speak of true heroism.

The "Ginebra Ako" tribute video aired as a TV ad and carried the 'Ginebra Ako' song by R&B artist Quest. The ad that debuted on New Year's Eve garnered millions of views and hundreds of shares in only a few days. It showed scenes of different challenges our unsung heroes face—from the everyday grind of ordinary workers to the fearless feats of rescuers and soldiers. Viewers expressed their appreciation on YouTube, Facebook, and other social media sites, stating that the music video invoked in them a sense of pride and patriotism, and inspired them to be "ganado sa buhay" and to "never-say-die".

A gift-giving activity transpired alongside the launch of the new campaign in December, as corporate social responsibility is an essential component of our company. A thousand shoeboxes filled with various gift items, prepared by GSMI employees themselves, were turned over to residents of Fort Bonifacio Tenement Building in Taguig City, as well as to residents of Barangay Subangdaku in Mandaue City, Cebu and Sitio Kulafu in Davao City.

Ginebra is in our DNA. As we enjoin our stakeholders to move with us in attaining our goal of becoming the country's dominant player in the hard liquor industry, we also want to make a positive impact to the communities we serve, to make a difference in people's lives and make it better. Let us give the Filipino people hope, let us have a heart, let us be heroes in our own right.



HAVING A HEART

MIKE SWIFT
Sports & Arts advocate on "Give Love: Ginebra San Miguel Shoebox Project"

So many international movements and basketball communities have visited Tenement Taguig, including Lebron James, Paul George and Jordan Clarkson. It had become one of the most beautiful courts in the world. Since then, we kept building it up because this place still needs a lot of help.

When we first started out here, people will just throw garbage everywhere. Once we started cleaning this up because of the basketball court, little by little you see people pitching in without being told. We are able to find jobs for some through the alleys that basketball gave us.

Now, Ginebra came in, got to know who we are and what we're trying to accomplish. I guess they found it in their hearts to say, we should invest in the people, in the community. And we appreciate them so much for doing this. Every room in the tenement received a shoebox that came directly from the hearts of Ginebra employees. That effort and through basketball got us to this point where people are joining forces to help better the lives of the Tenement community.

"Give Love" is a lifetime memory for them, especially this place is filled with Ginebra fans, and especially the attitude of the people of the tenement is never-say-die.

GINEBRA AKO

GIVING HOPE

MARK HAROLD M. DE CHAVEZ
GSMI scholar Batch 2017
Bachelor of Science in Chemistry
Graduated cum laude,
Pamantasan ng Lungsod ng Maynila

Sobrang laking tulong ng scholarship na ibinigay ng Ginebra para maka-graduate ako. Hindi ko alam ang gagawin ko in my final year sa college dahil dumaan sa maraming pagsubok ang pamilya namin. I'm an only child. Wala na rin akong tatay. Na-diagnose ang mama ko ng chronic kidney disease. Magastos ang pagpapa-dialysis niya. 'Yung tita ko, closest na kapatid ni mama, ang nagpupunta sa iba-ibang government agencies para manghingi ng financial support. Ang pakiramdam ko noon ay parang gusto ko nang sumuko. Iniisip ko na lang na gagawin ko lahat para kay mama kaso she passed away last May 2017. Naabutan niya ang graduation ko pero hindi na siya naka-attend dahil nasa ospital siya.

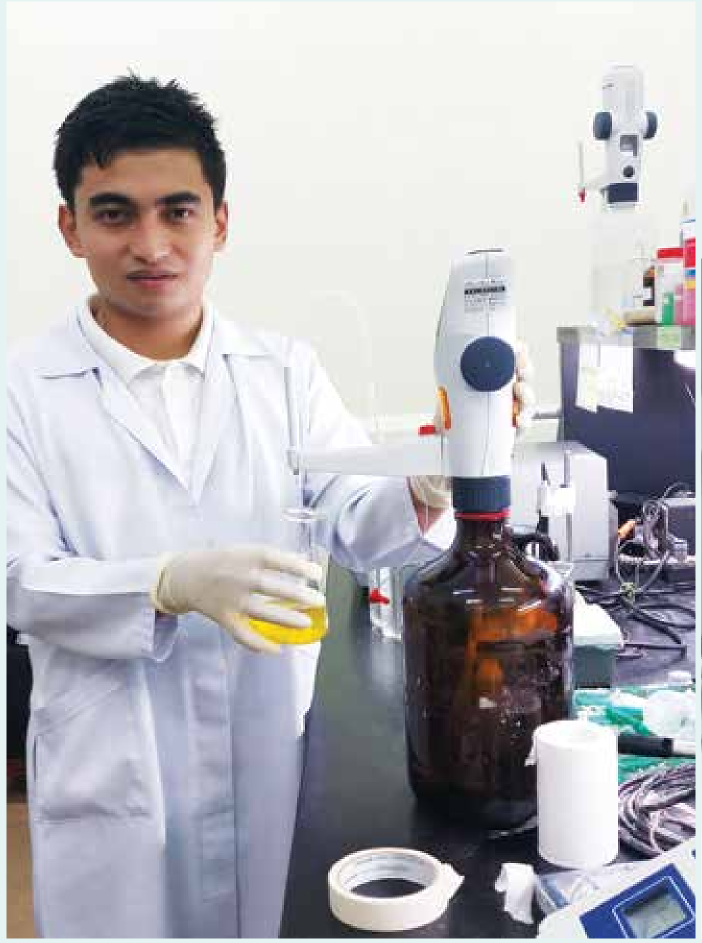
Medyo mas malungkot ang buhay ko ngayon dahil sa pagkawala ni mama pero sobrang thankful ako sa Ginebra. Through my effort sa trabaho ko ngayon bilang Quality Assurer sa Cabuyao Plant ay masusuklian ko ang tulong na binigay nila, pati na rin ng tita ko na tumulong din sa akin hanggang maka-graduate.

Maraming salamat sa Ginebra. Higit sa pagtulong nila sa pag-aaral ko at pagbibigay sa akin ng trabaho, nandun sila at tinulungan nila akong makabangon sa pinakamalaking pagsubok na pinagdaanan ko sa buhay.

ALQUIN V. ILAGAN
GSMI scholar Batch 2017
Bachelor of Science in Chemistry
Graduated cum laude,
Central Luzon State University

Ang pamilya ko ang isa sa mga dahilan kaya nagpursigi ako sa pag-aaral. Sila ang aking inspirasyon. Magsasaka ang tatay ko. Habang ang nanay ko naman ay naiiwan sa bahay para alagaan ang lola ko na may colon cancer. Dalawa kaming magkapatid. Ang kuya ko ay isa ring chemist.

Nag-aalangan po akong maka-graduate noon dahil mahirap lang kami pero buti na lang nag-qualify ako sa scholarship na ibinigay ng GSMI. Before pa ako mag-college talagang passion ko na ang science and mathematics. Last year, nagtapos ako ng cum laude at ngayon ay nagtatrabaho bilang Quality Assurer sa Ginebra San Miguel Sta. Barbara Plant. Grateful ako na natulungan ako ng Ginebra hindi lang sa pag-aaral, nabigyan din nila ako ng trabaho.



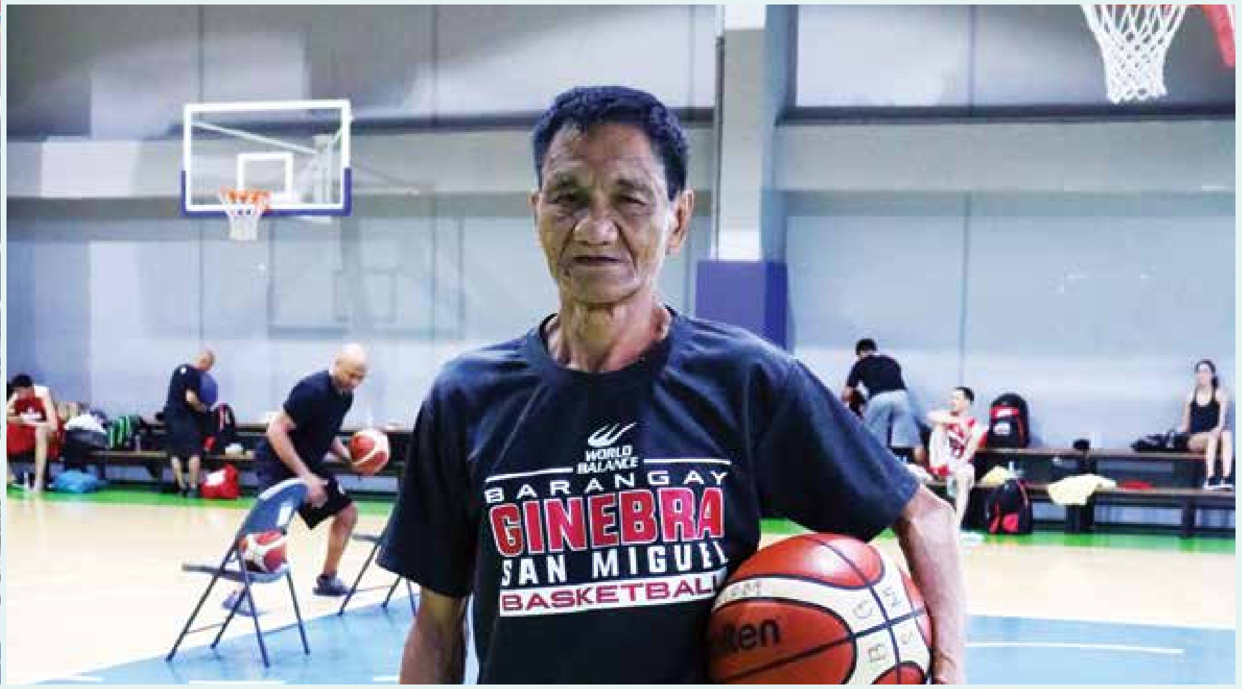
Ang payo ko sa mga estudyante pa lang ngayon, huwag kayong mawalan ng pag-asa. Kapag may opportunity na makakatulong para sa sarili nila at sa kanilang mga pamilya, just take it. Tulad ko, nagtiyaga lang at ginawa ang lahat para matupad ang aking pangarap. Ngayong may trabaho na ako sa Ginebra, ibibigay ko ang lahat at magsisipag lagi. Sana magpatuloy rin ang paglago ng ating kumpanya para sa ikauunlad nating lahat.

BEING A HERO FOR OTHERS

JUN VISCERA
Waterboy for more than 30 years
Barangay Ginebra San Miguel

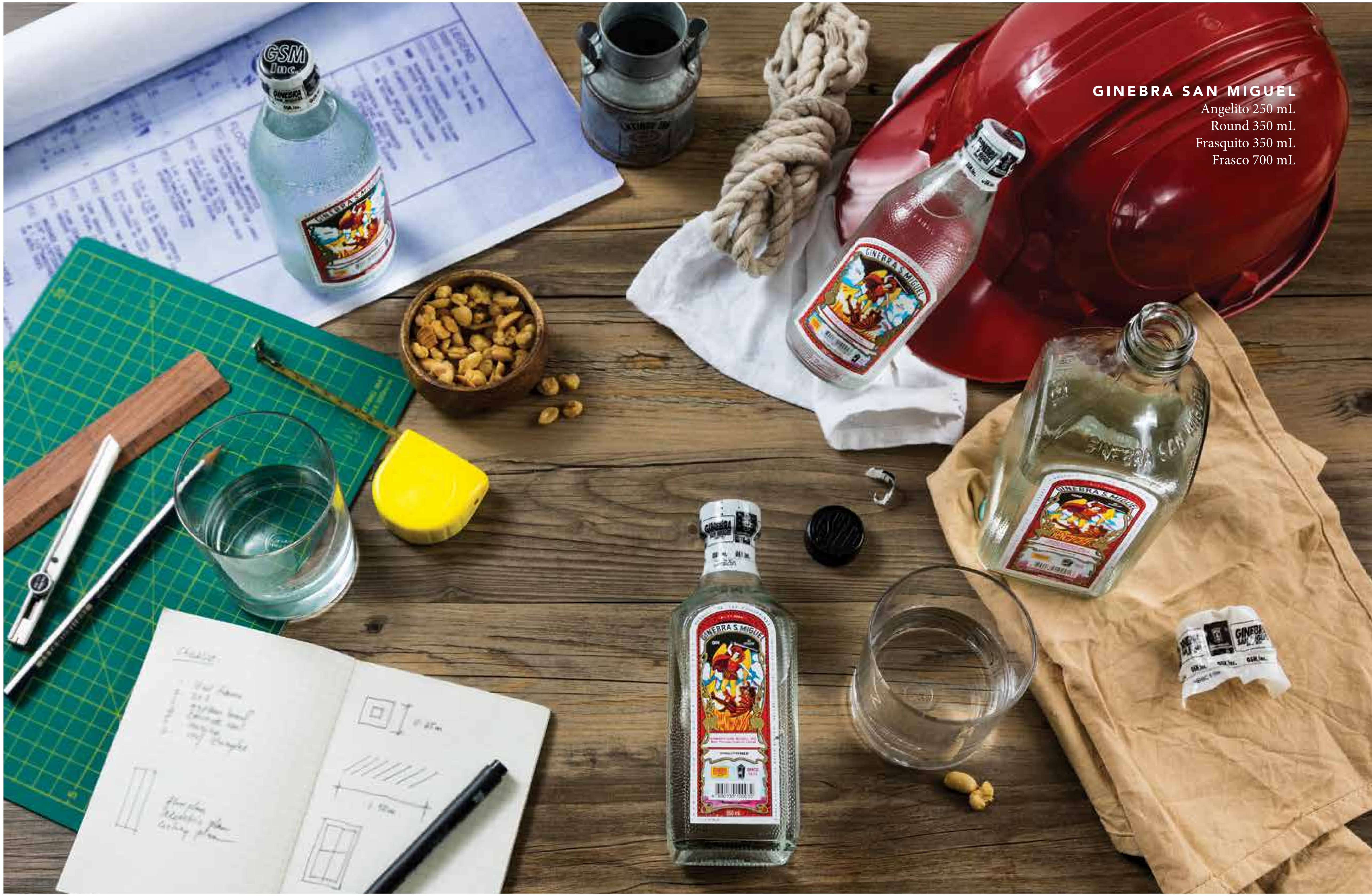
May dalawa akong anak. 'Yung panganay ko 20 years old at nagtatrabaho sa call center. 'Yung bunso naman namatay dahil sa leptospirosis. Ang mawalan ng anak na siguro ang masasabi kong pinakamahirap na napagdaanan ko sa buhay. 'Yung bunso ko talaga ang mahilig sa basketball. Ang mga pinakamasasayang alaala ko sa kanya 'yung kapag kasama ko siya sa trabaho. Kilala siya ng mga players. Nakakalaro niya sina Jayjay (Helterbrand) at Chris (Ellis) noon. Bonding namin 'yung sumasama siya sa akin sa mga practice ng Ginebra.

Kapag naiisip ko 'yung nangyari sa anak ko, nalulungkot pa rin ako. Pero araw-araw kailangan never-say-die para matibay ang loob. Malaking tulong na nagtatrabaho ako at nabibigyan ko ng buhay ang mga players natin para gumanda ang laro nila simula pa noong panahon ni the Big J (Robert Jaworski). Malaki rin ang pasasalamat ko sa kanya at sa Ginebra kasi pagkatapos kong mag retiro noon sa pagbo-boxing, si Jawo ang tumulong sa akin para magka-trabaho ako sa Ginebra.



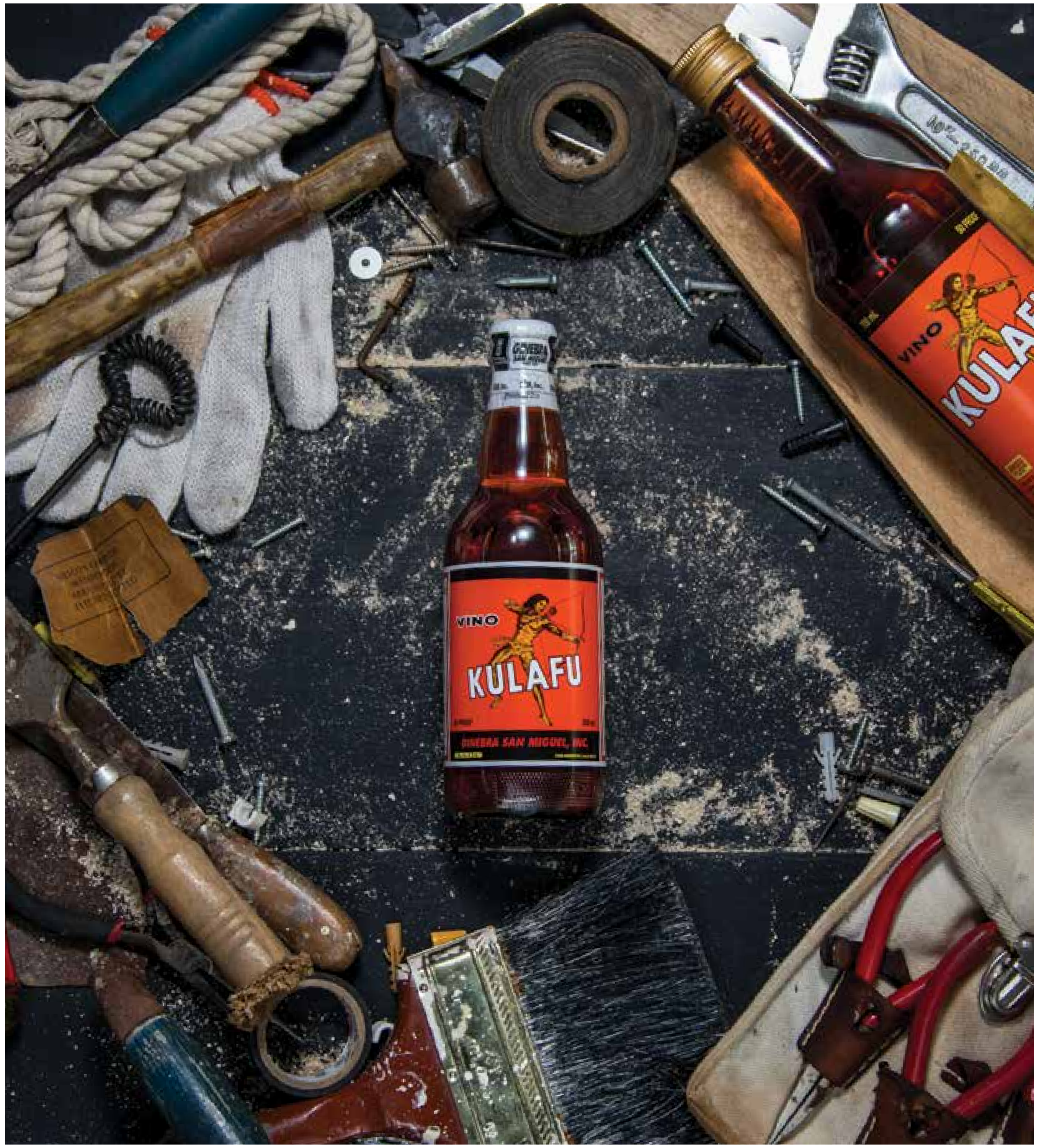
GINEBRA AKO

PORTFOLIO OF BEVERAGES



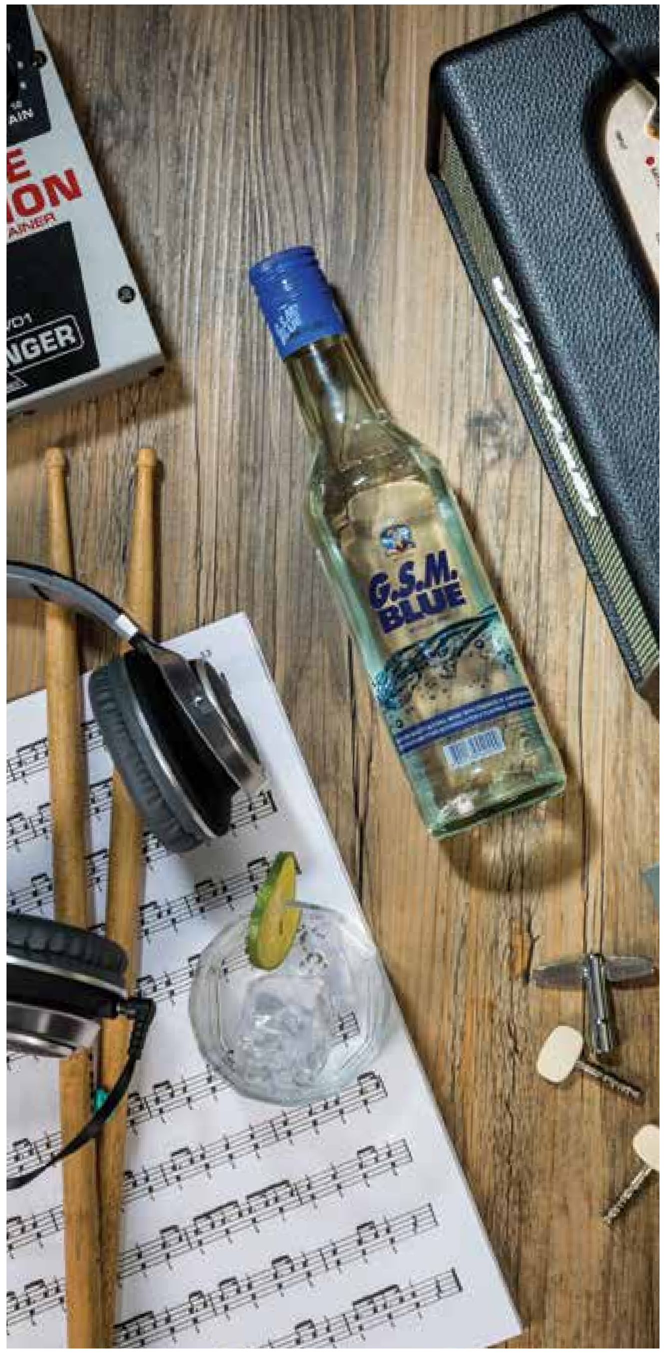
GINEBRA SAN MIGUEL
Angelito 250 mL
Round 350 mL
Frasquito 350 mL
Frasco 700 mL

GINEBRA AKO



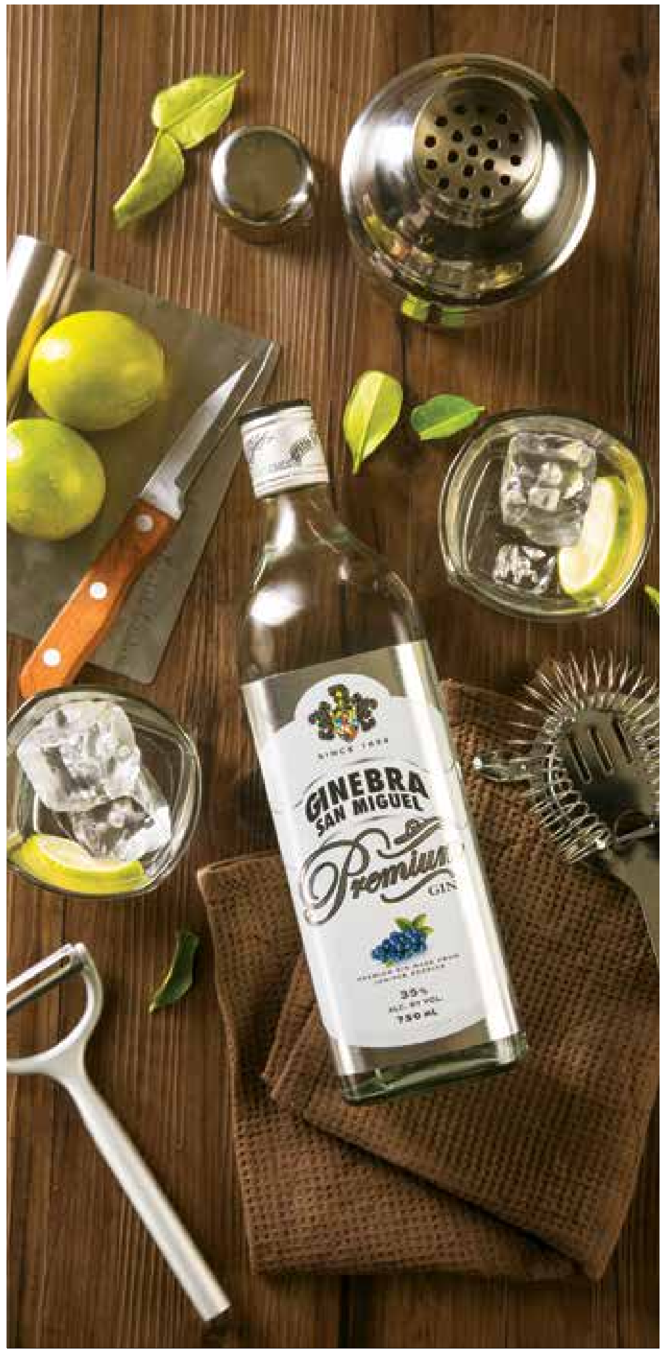
VINO KULAFU
Classic 350 mL
Long Neck 700 mL

GSM BLUE FLAVORS
BROWN COFFEE
GIN POMELO
MARGARITA
MOJITO
Solo 350 mL
Long Neck 700 mL



GSM BLUE
Solo 350 mL
Long Neck 700 mL

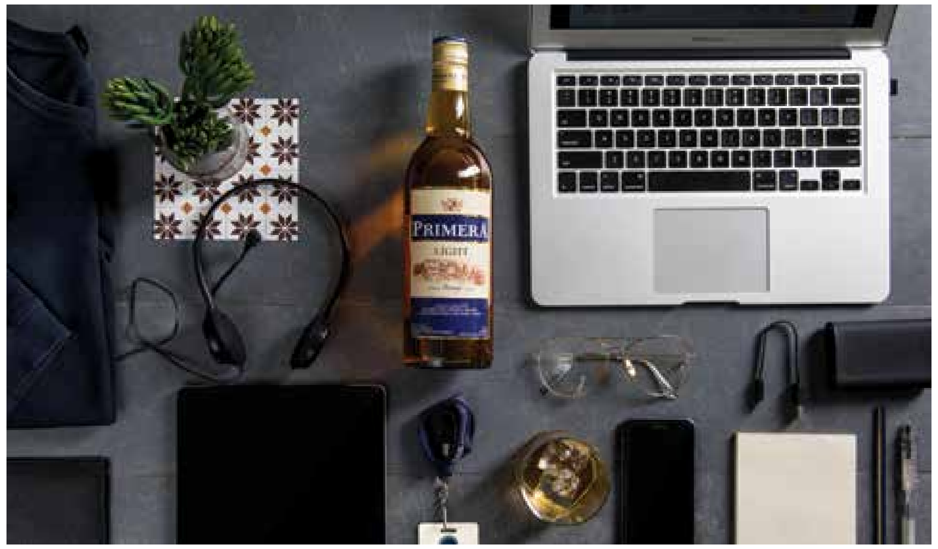
GINEBRA AKO



GINEBRA SAN MIGUEL PREMIUM GIN
750 mL

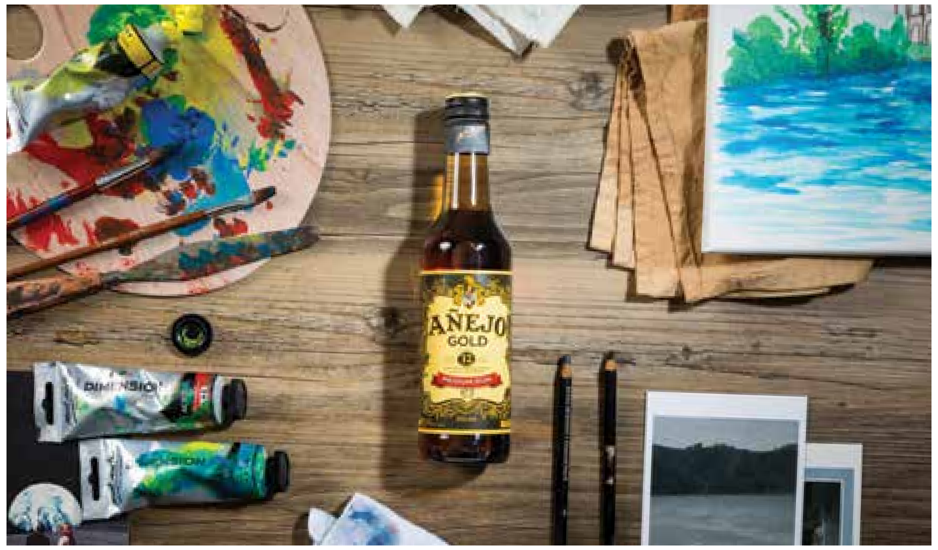
ANTONOV VODKA
700 mL

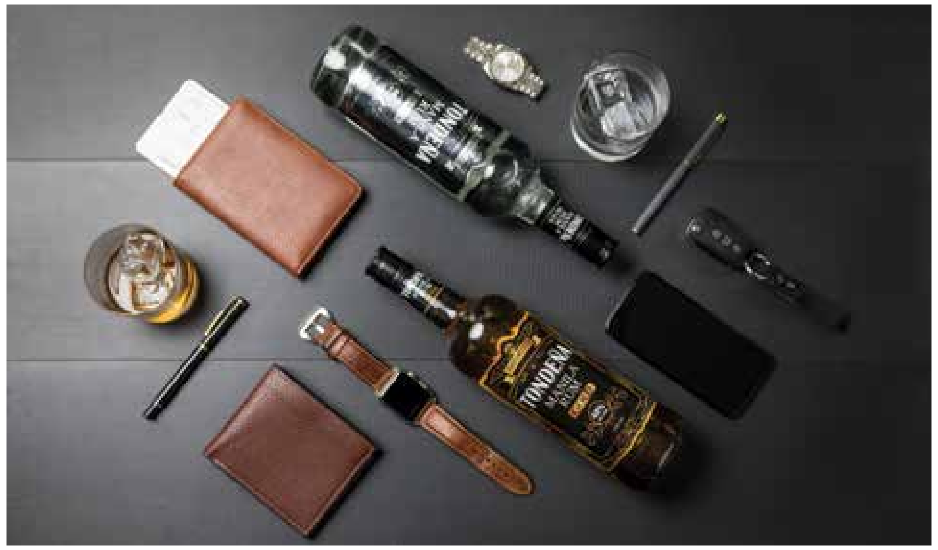
DON ENRIQUE MIXKILA
700 mL



PRIMERA LIGHT BRANDY
Solo 350 mL
Long Neck 750 mL

AÑEJO GOLD MEDIUM RUM
Solo 350mL





TONDEÑA MANILA RUM
(FOR EXPORT ONLY)
Gold, Silver, Dark 750mL

BOARD OF DIRECTORS

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

RAMON S. ANG
President

FRANCISCO S. ALEJO III

LEO S. ALVEZ

AURORA T. CALDERON

GABRIEL S. CLAUDIO

MARIO K. SURIO

MINITA V. CHICO-NAZARIO
Independent Director

AURORA S. LAGMAN
Independent Director

CORPORATE GOVERNANCE

The concept of corporate governance has changed over the years. From being defined as a "system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place"[1], it has evolved to refer to a "system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior—reconciling long-term customer satisfaction with shareholder value—to the benefit of all stakeholders and society. Its purpose is to maximize the organization's long-tem success, creating sustainable value for its shareholders, stakeholders and the nation."[2]

The Company's Board of Directors (the "Board"), Management, Officers, employees and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management. Recognizing that good corporate governance plays a vital role in attaining corporate goals and creating and sustaining shareholder value, Ginebra San Miguel Inc. (the "Company") on August 6, 2002, institutionalized the principles of good corporate governance in the entire organization by establishing and implementing the Company's Manual on Corporate Governance (the "Manual"). Pursuant to the Manual, the Board created the Audit Committee, Nomination and Hearing Committee and Executive Compensation Committee.

On March 30, 2010, the Board amended the Manual in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission (the "SEC") in its Memorandum Circular No. 6, Series of 2009.

In 2014, the Company amended its Manual twice to align the provisions thereof with the prevailing issuances, rules and circulars (collectively, the "Rules") of the SEC.

On November 22, 2016, the SEC issued Memorandum Circular No. 19, Series of 2016 (the "Circular") on the approval of the Code of Corporate Governance for Publicly-Listed Companies ("CG for PLCs"), which took effect on January 1, 2017. The CG for PLCs does not prescribe a "one size fits all" framework. It is designed to allow boards some flexibility in establishing their corporate governance arrangements. It also adopts a "comply or explain" approach that combines voluntary compliance with mandatory disclosure. Taking into account the foregoing, the Company formally approved and adopted an amended or new Manual on May 9, 2017, which considered the provisions in the CG for PLCs, as they may be applicable to the Company.

The Company, through its Board, Management, Officers and employees continuously strive to further strengthen and deepen its commitment to good corporate governance practices.

[1] As defined in SEC Memorandum Circular No. 2, Series of 2002
[2] As defined in the SEC Memorandum Circular No. 19, Series of 2016 on the Code of Corporate Governance for Publicly-listed Companies.

BOARD OF DIRECTORS

The Board is responsible for fostering the long-term success of the Company and ensuring its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Company, its stockholders and other stakeholders. The Board is likewise responsible for formulating the Corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor the Management's performance.

In the performance of its duties and responsibilities, the Board has always been guided by the principles of transparency, accountability, fairness, honesty and integrity.

To be able to implement good corporate governance practices, the Company, through its Compliance Officer, updates the Board, during its meetings, on relevant laws, rules, regulations, circulars and issuances of the different regulatory bodies to ensure compliance therewith. Moreover, all members of the Board have been required to attend an Annual Corporate Governance ("CG") Seminar conducted by SEC-accredited providers. In 2017, they attended the CG Seminars conducted by Risk, Opportunities, Assessment and Management (ROAM), Inc. and SyCip Gorres Velayo & Co.

BOARD COMPOSITION

The Company's Board is composed of nine (9) directors who are elected annually by the stockholders during the Regular Stockholders' Meeting ("RSM") to hold office for one (1) year and until their successors are duly elected and qualified.

Independent Directors

The Independent Directors[3] of the Company are Minita V. Chico-Nazario and Aurora S. Lagman, who to date, have served as such for six (6) years and one (1) year, respectively, which is well within the prevailing maximum nine (9)-year term limit for Independent Directors[4].

Chairman, Chief Executive Officer and Lead Independent Director

The Chairman of the Board is the Chief Executive Officer (the "CEO") of the Company. He is responsible for the general supervision, administration and management of the business of the Company. He presides at the meetings of the directors and stockholders. Mr. Eduardo M. Cojuangco, Jr. holds the position of Chairman of the Board and CEO, a structure that has consistently worked well for the Company. Proper checks and balances are in place to ensure that the Board obtains the benefit of independent views and perspectives.

As the roles of Chairman and CEO are combined, the Board elected Ms. Minita V. Chico-Nazario as Lead Independent Director of the Company, to ensure that the Independent Directors shall be free to express and advocate independent views and perspectives, and that abuse of power or authority and potential conflict of interest are avoided.

President and General Manager

Mr. Ramon S. Ang is the President of the Company. He supervises and directs the day-to-day business affairs of the Company.

[3] Independent Directors are directors who, apart from their fees and shareholdings, have no business or relationship with the Company, which could, or could reasonably be perceived to, materially interfere with the exercise of their independent judgment in carrying out their responsibilities.
[4] SEC Memorandum Circular No.4, Series of 2017.

The President is assisted by Mr. Emmanuel B. Macalalag[5], the Company's General Manager[6] (the "GM"). The GM reports to the President and is charged with overseeing the overall management of the Company's various departments with the aim of continuously improving the Company's business operations and attainment of corporate objectives.

BOARD PERFORMANCE

In order to accomplish its duties and responsibilities, the Board regularly holds meetings, the dates thereof having been determined and made known ahead of time to ensure complete attendance. The schedule of the 2017 meetings was presented to the Board during its November 9, 2016 meeting. As a matter of course, the Corporate Secretary, prior to the date of the meeting, sends notices and agenda to each member of the Board, as well as other necessary information to facilitate discussion and enable the directors to arrive at intelligent decisions on matters requiring Board approval. In 2017, the Board held four (4) regular meetings and one (1) organizational meeting. The Board also attended the 2017 RSM. Members of the Board were encouraged to actively participate and express their thoughts and opinions during meetings.

The details relative to the attendance of the directors in the Board meetings and RSM in 2017 are shown in the table below:

DIRECTORS	BOD	BOD	RSM	ORG	BOD	BOD
	MAR 15	MAY 9	MAY 25	MAY 25	AUG 9	NOV 9
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓	✓	✓	✓	✓
Bernard D. Marquez[7]	✓	✓	✓	✓	✓	n/a
Aurora T. Calderon[8]	n/a	n/a	n/a	n/a	n/a	n/a
Francisco S. Alejo III	✓	✓	✕	✕	✓	✓
Leo S. Alvez	✓	✓	✓	✓	✓	✓
Gabriel S. Claudio	✓	✓	✓	✓	✓	✓
Mario K. Surio	✓	✓	✓	✓	✓	✓
Minita V. Chico-Nazario	✓	✓	✓	✓	✓	✓
Aurora S. Lagman	✓	✓	✓	✓	✓	✓

BOARD COMMITTEES

As a consequence of the adoption of the amended or new Manual, the Board reorganized its committees. While the CG for PLCs provides for four (4) committees: Corporate Governance Committee, Audit Committee, Board Risk Oversight Committee, and Related Party Transaction Committee, the Board, considering the Company's size, risk profile and operations, apart from the Executive Committee, created only three (3) committees: (1) Audit and Risk Oversight Committee; (2) Corporate Governance Committee; and (3) Executive Compensation Committee.

The Board, during its meeting on November 9, 2017, approved the respective Charters of the aforementioned three (3) Committees. These Charters were adopted to align with the provisions of the amended or new Manual.

[5] Mr. Macalalag was elected as General Manager vice Mr. Bernard D. Marquez who resigned as Director and General Manager of the Company effective September 30, 2017.
[6] The Board, on May 9, 2017 approved the creation of the Office of the General Manager, which is in accordance with the By-Laws of the Company, and is intended to align the operations of the Company with the San Miguel Group.
[7] Mr. Bernard D. Marquez resigned as Director and General Manager of the Company effective September 30, 2017.
[8] Ms. Calderon was elected as Director of the Company on November 9, 2017 vice Mr. Marquez.

The following are the members of the Board Committees as of December 31, 2017, and their respective roles and responsibilities:

EXECUTIVE COMMITTEE	
MEMBERS	Eduardo M. Cojuangco, Jr. (Chairman) Ramon S. Ang Aurora T. Calderon Francisco S. Alejo III Ferdinand K. Constantino (Non-Director Member)
ROLES AND RESPONSIBILITIES	The Committee acts within the power and authority granted upon it by the Board. It is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, except as specifically limited by the Board or by law.

AUDIT AND RISK OVERSIGHT COMMITTEE	
MEMBERS	Minita V. Chico-Nazario (Independent Director and Chairperson) Leo S. Alvez Francisco S. Alejo III Aurora S. Lagman (ID) Ferdinand K. Constantino (Non-Director Member)
ROLES AND RESPONSIBILITIES	This Committee was formerly referred to as the Audit Committee. It presently performs the functions of the Audit, Board Risk Oversight and Related Party Transaction Committees. Among others, it enhances the oversight capability of the Board over the Company's financial reporting, internal control system, internal and external audit process and compliance with applicable laws and regulations. It likewise has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place to guide the Board in arriving at well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. Also, it oversees the implementation of the system for identifying, monitoring, measuring, controlling and reporting related party transactions.

CORPORATE GOVERNANCE COMMITTEE	
MEMBERS	Aurora S. Lagman (Independent Director and Chairperson) Leo S. Alvez Aurora T. Calderon Gabriel S. Claudio Mario K. Surio Minita V. Chico-Nazario (Independent Director) Casiano B. Cabalan, Jr. *(Ex Officio Member)*
ROLES AND RESPONSIBILITIES	The Committee assumed the functions of the former Nomination and Hearing Committee of the Company. The Committee assists the Board in the performance of its corporate governance responsibilities. Among others, it oversees the implementation of the corporate governance framework and periodically review the same to ensure that it remains appropriate. It also pre-screens and shortlists candidates for nomination to become a member of the Board in accordance with the qualifications and disqualifications for directors set out in the Manual.

EXECUTIVE COMPENSATION COMMITTEE	
MEMBERS	Ramon S. Ang (Chairman) Leo S. Alvez Aurora T. Calderon Minita V. Chico-Nazario (Independent Director) Ferdinand K. Constantino (Non-Director Member)
ROLES AND RESPONSIBILITIES	The Committee advises the Board on the establishment of formal and transparent policies and practices on remuneration of directors and executives. It provides oversight function over remuneration of senior management and other key personnel, ensuring consistency with the Company's culture, strategy and control environment.

Board Committee Performance

The details of the attendance of the Directors in the Committee meetings in 2017 are shown below:

EXECUTIVE COMPENSATION COMMITTEE	MEETINGS		
	MAR 15	MAY 9	NOV 9
Ramon S. Ang	✓	✓	✓
Leo S. Alvez	✓	✓	✓
Minita V. Chico-Nazario	✓	✓	✓
Ferdinand K. Constantino	✓	✓	✓
Bernard D. Marquez[9]	✓	✓	n/a
Aurora T. Calderon[10]	n/a	n/a	n/a

AUDIT AND RISK OVERSIGHT COMMITTEE	MEETINGS			
	MAR 15	MAY 9	AUG 9	NOV 9
Minita V. Chico-Nazario	✓	✓	✓	✓
Leo S. Alvez	✓	✓	✓	✓
Francisco S. Alejo III	✓	✓	✓	✓
Aurora S. Lagman	n/a	✓	✓	✓
Ferdinand K. Constantino	✓	✓	✓	✓

CORPORATE GOVERNANCE COMMITTEE	MEETINGS	
	MAR 15	MAY 9
Aurora S. Lagman	n/a	✓
Leo S. Alvez	✓	✓
Gabriel S. Claudio	✓	✓
Mario K. Surio	✓	✓
Minita V. Chico-Nazario	✓	✓
Bernard D. Marquez[11]	✓	n/a
Aurora T. Calderon[12]	n/a	n/a
Casiano B. Cabalan, Jr.	n/a	n/a

[9] Mr. Bernard D. Marquez resigned as Director and General Manager of the Company effective September 30, 2017.
[10] Ms. Calderon was elected as Director of the Company on November 9, 2017 vice Mr. Marquez.
[11] Mr. Bernard D. Marquez resigned as Director and General Manager of the Company effective September 30, 2017.
[12] Ms. Calderon was elected as Director of the Company on November 9, 2017 vice Mr. Marquez.

BOARD REMUNERATION

In 2017, each Director received a per diem of Ten Thousand Pesos (P10,000.00) per attendance at Board and Committee meetings of the Company.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Oversight Committee performs oversight functions to both external and internal auditors. The role and responsibilities of the Audit and Risk Oversight Committee are clearly defined in its Charter and the Company's Manual.

EXTERNAL AUDITOR

The External Auditor enables an environment of good corporate governance as reflected in the Company's financial records and reports, undertakes the independent audit of the Company and provides objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The External Auditor, which should be duly accredited by SEC, is selected and appointed by the stockholders upon the recommendation of the Audit and Risk Oversight Committee. In instances when the External Auditor suspects fraud or error during its conduct of audit, it is required to disclose and express its findings on the matter.

Upon the recommendation of the Audit and Risk Oversight Committee, the Board endorsed R.G. Manabat & Co. to be appointed as External Auditor of the Company for 2017. Such appointment was approved by the stockholders during the RSM held on May 25, 2017. Representatives of the audit firm were present during the said RSM and were given the opportunity to respond to appropriate questions or make a statement, if it so desired.

The accounting firm of R.G. Manabat & Co. has been the Company's External Auditor since 2006, when it was then the Manabat Sanagustin & Co., CPAs. Compliant with Part I (3) (b) (ix) of the Securities Regulation Code ("SRC") Rule 68, as amended, with respect to the re-engagement of the said audit firm and as mandated in its Manual, the Company unfailingly observes the rule on rotation for the signing partner every five (5) years or earlier.

Fees for the services rendered by the External Auditor to the Company and its subsidiaries in connection with the Company's annual financial statements and other statutory and regulatory filings for 2017 amounted to 7.395 million pesos.

There were no disagreements with the Company's External Auditor on any matter relating to accounting and financial disclosures.

INTERNAL AUDITOR

The Company has in place a Ginebra San Miguel ("GSM") Group Audit, an internal audit group that functions and provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations. It provides the Board, Management and shareholders with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with by the Company. It directly reports functionally to the Audit and Risk Oversight Committee and administratively to the President.

The Company's GSM Group Audit is mandated to provide an independent risk-based assurance service to the Board, perform compliance audit, establish a risk-based audit plan, and review the efficiency and effectiveness of the internal control system of all areas of the Company, to name a few. The specific duties and responsibilities of the said group are set forth in detail in the Company's Manual and its own Charter.

DISCLOSURE AND TRANSPARENCY

The Company implements full disclosure and transparency in its transactions. Accordingly, as and whenever necessary, the Company files reports and disclosures to regulatory bodies, such as the SEC, the Philippine Stock Exchange, Inc. (the "PSE"), and the Bureau of Internal Revenue (collectively, the "Regulatory Agencies"). Such reports and disclosures are intended to apprise the stockholders and other stakeholders of the Company's true business and financial condition, as well as the quality of its corporate governance.

OWNERSHIP STRUCTURE

The top twenty (20) common and preferred stockholders of the Company, including the shareholdings of certain record and beneficial owners who own more than five percent (5%) of its capital stock, its directors and senior executive officers, are disclosed regularly to the public through the Company's filing of the Top 100 Stockholders and Public Ownership Reports with the PSE through the online PSE Edge Portal. These data are also included in the Information Statement ("IS") distributed to the stockholders prior to the RSM.

FINANCIAL REPORTING

The investing public are regularly updated on the Company's operating performance and financial information through the timely submission of its disclosures and reportorial requirements with the SEC and PSE. As may be necessary, it also discloses to the SEC and PSE such other major and market-sensitive information that affects share price performance.

The Company's quarterly financial results for the first three (3) quarters of the relevant year, as well as the audited Consolidated Financial Statements for the latest completed financial year, which form part of the IS distributed to the stockholders, are released and are duly disclosed to the SEC and PSE within the prescribed period. The financial results are also presented to financial and investment analysts through the quarterly Investors' Briefing.

The Company's audited Consolidated Financial Statements were prepared in compliance with Philippine Financial Reporting Standards (PFRS). The PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consists of PFRS, Philippine Accounting Standards and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council. The separate and consolidated financial statements as of December 31, 2017 of the Company were approved and authorized for issue by a resolution of the Board on March 14, 2018.

SECURITIES DEALING

The Company's commitment to the highest standards of values, expertise and professionalism prompted the Company to adopt a Policy on Dealings in Securities. This policy mandates the Directors, Officers and employees of the Company and its subsidiaries ("GSMI Group") to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy, as well as the requirements of the SRC. It sets out the conditions and rules under which the Directors, Officers and employees of the GSMI Group shall deal in securities of the Company.

Under this policy, Directors, Officers and certain employees are considered to have access to "insider information", i.e. knowledge or possession of material non-public information about the Company by virtue of their functions and responsibilities. Therefore, such Directors, Officers and key employees with access to inside information are prohibited from trading in the Company's shares at any time when they have knowledge or possession of material non-public information about the Company, and during a specified time frame, or a "blackout period". The same prohibition applies even if the material non-public information refers to another company, so long as the same was obtained in the course of performing the duties as Directors, Officers or employees of the GSMI Group.

RELATED PARTY TRANSACTIONS

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. An assessment is undertaken at each fiscal year by examining the financial position of the related party and the market in which the related party operates.

The Company has significant transactions with related parties pertaining to purchases of containers, bottles and other packaging materials as well as the sale of liquor and by-products. It has also entered into various lease agreements with related parties as a lessor and lessee. These transactions are made in the ordinary course of business, at normal market prices and terms. Related party transactions (the "RPTs") are fully disclosed in the Company's audited Consolidated Financial Statements.

The Audit and Risk Oversight Committee evaluates on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in related parties are captured. It also evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

STOCKHOLDERS' RIGHTS AND STAKEHOLDER RELATIONS

STOCKHOLDERS' MEETING

The Board shall be transparent and fair in the conduct of regular and special stockholders' meetings. Stockholders are encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the Company's By-Laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in favor of the stockholder.

Stockholders are informed of the details of the meeting through the IS that is sent to each stockholder at least fifteen (15) business days before the scheduled date of the meeting. The IS contains the notice, date, time, venue and agenda of the meeting, information pertaining to proxies, deadline for submission thereof and date of their validation as well as other relevant information about the Company. The IS for the 2017 RSM was sent to the stockholders on May 8, 2017.

VOTING RIGHTS AND VOTING PROCEDURES

Each share, whether common or preferred, registered in the name of the stockholder entitles such stockholder to one (1) vote. Stockholders have the right to elect, remove, and replace directors as well as vote on certain corporate acts in accordance with the Corporation Code. In electing members to the Board, every stockholder is entitled to cumulate his votes in accordance with the provisions of law. Voting procedures on matters presented for approval to the stockholders in the RSM are set out in the IS.

PRE-EMPTIVE RIGHTS

All shareholders shall have pre-emptive rights; they shall have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings, unless the same is denied in its Articles of Incorporation (the "Articles") or an amendment thereto.

Under the Company's Articles, stockholders do not have pre-emptive rights to subscribe to the convertible preferred shares or to subscribe to the common shares to be issued by the Company upon conversion of the preferred shares and the conversion of any notes issued to redeem such preferred shares. Subject to certain conditions and threshold on the percentage of shares allotted to be issued pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans (collectively, the "Plans"), stockholders do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its Officers and/or employees pursuant to such Plans.

RIGHT TO INFORMATION OF STAKEHOLDERS AND INVESTOR RELATIONS

The Company exercises transparency when dealing with its stakeholders[13], which includes, among others, its customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates. Such transparency is manifested in the Company's reports, disclosures and other documents filed with the Regulatory Agencies relating to the Company, its Directors and Officers, as well as its operations and transactions. Stakeholders can request for hard copies of these documents, as well as make inquiries through among others, the Investor Relations Office of the Company and its parent company, San Miguel Corporation (the "SMC").

The Company also holds combined Investors' Briefings with SMC and other SMC subsidiaries on a regular basis, the date and agenda for which are disclosed to the PSE at least three (3) days before the holding thereof. Materials for the said briefings are also disclosed to the PSE on the day of the briefing itself.

DIVIDENDS

Holders of common shares are entitled to receive dividends as the Board may, in its sole discretion, declare from time to time. Holders of preferred shares are entitled to participate and to receive dividends as and when declared by the Board to common stockholders at such rate or amount and period as may be fixed by the Board. Such right to receive dividends may be cumulative. The Board may, in addition, grant holders of preferred shares the right to a fixed dividend rate to be determined upon issuance. The Board, however, is required, subject to certain exceptions, to declare dividends when the Company's retained earnings equal or exceed its paid-up capital stock.

EMPLOYEE RELATIONS

"Respect for our People" is one of the Company's corporate values. The Company is committed to maintain a work environment that encourages trust, openness, and mutual respect regardless of rank or title. It promotes a healthy work and life balance and provides opportunities for professional and personal growth. It also inspires and supports its employees to be the best that they can be. Concern for its employees' safety, health and welfare, as well as personal and professional growth has always been the Company's top priority. Such concern is manifested in the Company's policies and programs.

[13] Stakeholders – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates (as defined in SEC Memorandum Circular No. 19., Series of 2016.)

Every year, employees are required to have physical examinations to ensure their good health and well-being. In 2017, employee-related activities such sports tournaments (basketball, volleyball, badminton, table tennis, and bowling and darts) were held to promote wellness. The Company also makes its employees feel important during special occasions (Valentine's Day, Mother's Day, Father's Day) by providing them with tokens or treats.

It is also the Company's policy to promote career advancement and development of employees through the numerous training programs and seminars implemented by and/or facilitated by the Company's Human Resources Department. In 2017, the Company provided opportunities to its employees, as well as the employees of its subsidiaries, to attend training programs covering various topics such as Fundamentals of Finance for Non-Finance, Personal Effectiveness Program, Problem Solving and Decision Making, Effective Presentation Skills and Effective Business Writing, to name a few. The Company also sees to it that specific training geared towards gaining proficiency and expertise in a particular field are participated in by employees, such as the Alcohol and Liquor Technology Course and Chemical Technician Licensure Examination Review, which was participated in by employees from the Technical Services Group. For managerial employees, relevant seminars and trainings were afforded to them such as the Ateneo Leadership and Management Development Program consisting of fourteen (14) intensive courses with the objective of providing them with comprehensive training that enhances leadership and management skills.

The Company's Employee Education Program (EDPRO) which supports employee efforts on continuous learning and self-improvement, has been consistently made available to its employees. Subject to certain conditions, the Company through the EDPRO may subsidize the educational expenses of qualified employees who are pursuing undergraduate, post-graduate or technical-vocational courses.

CONFLICT OF INTEREST

The Company implements a policy on Conflict of Interest which espouses the principle that Officers and employees have a duty to act in the best interest of the Company. This policy specifically requires Officers, Managers, and employees to: conduct business affairs with fairness; avoid granting undue personal favors; engage only in private activities or business consistent with responsibilities as officers and employees and not detrimental to the interest of the Company; refuse gifts that might connote bribery in any way; utilize Company property, funds, equipment and time solely for Company purposes, and recognize that all intellectual property and rights so created are owned by the Company; and seek prior Management clearance before engaging in outside work. In the event that any personal interest of an Officer or employee may conflict with the interest of the Company, proper disclosure through the accomplishment of the Full Business Interest Disclosure Form should be made, and a review by higher Management shall resolve the conflict.

CODE OF ETHICS

The Company adheres to the SMC group-wide Code of Ethics that sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the Directors, Management, Officers and employees of the Company. The Company is firmly committed to the promotion of a culture that fosters and maintains the core values of fairness, transparency, accountability and integrity in the conduct of its business and expects each of its Directors, Officers and employees to observe with zeal such core values in the performance of their duties, in their relationships with fellow employees and in all their dealings with shareholders, customers, suppliers, government and the general public.

WHISTLE BLOWING

Procedures have been established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a SMC group-wide Whistle Blowing Policy. The said policy provides that all complaints be ultimately referred to the Audit and Risk Oversight Committee, which complaints may be on anonymous basis and which shall be placed in confidential files and will be retained for seven (7) years or for such longer time as the said Committee may deem necessary. All communications received through the established channels will be kept confidential. The original copies or records of all communications will be available to any Audit and Risk Oversight Committee member upon request. The said Committee will determine whether any action or response is necessary or appropriate in respect of a communication, and it will take or direct such action as it deems appropriate.

COMPLIANCE SYSTEM

To ensure adherence to corporate principles and best practices, the Board has appointed a Compliance Officer who is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual, relevant laws, issuances and rules and regulations of Regulatory Agencies. The Company's Compliance Officer is Atty. Virgilio S. Jacinto.

WEBSITE

More detailed information on the Company may be viewed at http://www.ginebrasanmiguel.com.

REPORT OF THE AUDIT AND RISK OVERSIGHT COMMITTEE
For the year ended December 31, 2017

The Audit and Risk Oversight Committee (formerly, the Audit Committee), among others, assists the Board of Directors (the "Board") in the performance of its oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. In particular, the Committee performed the following:

- Recommended to the Board and endorsed for approval by the stockholders, the appointment of R.G. Manabat & Co., as the Company's independent external auditor for 2017;

- Reviewed and approved the terms of engagement of the external auditor for audit-related services provided or to be provided and the fees for such services;

- Reviewed and approved the terms of engagement of the external auditor for non-audit service relative to the conduct of data privacy consultancy services for the Company and its operating subsidiaries, Distileria Bago, Inc., and East Pacific Star Bottlers Phils Inc. and the fees for such services, and ensured that the same did not impair the said auditor's independence and objectivity;

- Reviewed, discussed and recommended for approval of the Board the Company's 2016 parent and consolidated financial statements, as well as the 2017 quarterly financial statements and such other reports required to be submitted to regulatory agencies in connection with such financial statements, to ensure that the information contained in such statements and reports presented a true and balanced assessment of the Company's financial position and condition and that such statements and reports complied with the regulatory requirements of the Securities and Exchange Commission (the "SEC") and applicable laws, rules, regulations and issuances of regulatory bodies;

- Adopted a new charter (the "Charter"), to align with the new/amended Manual on Corporate Governance (the "Manual"), which Manual took into account the applicable provisions of the Code of Corporate Governance for Publicly-Listed Companies as embodied in SEC Memorandum Circular No. 19, Series of 2016;

- As and when necessary, performed functions pertaining not only to audit, but also to risk oversight and related party transactions; and

- Reviewed the adequacy, effectiveness and sufficiency of the Company's financial and internal controls and risk management systems, and ensured that, where applicable, necessary measures were taken to address any concern or issue arising therefrom.

The Committee exerted best efforts in performing the foregoing activities as well as in fulfilling its responsibilities all in pursuant to the Manual and Charter. The Committee substantially met its mandate in 2017.

MINITA V. CHICO-NAZARIO
Chairperson,
Lead Independent Auditor

Leo S. Alvez	**Aurora S. Lagman**	**Francisco S. Alejo II**	**Ferdinand K. Constantino**
Member	Member, Independent Director	Member	Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

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

CYNTHIA M. BAROY
Chief Finance Officer

RAMON S. ANG
President

Signed this 14th day of March 2018

KPMG

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Ginebra San Miguel Inc.
3rd and 6th Floor, San Miguel Properties Centre
St. Francis Street, Ortigas Center
Mandaluyong City

Opinion

We have audited the consolidated financial statements of Ginebra San Miguel Inc. and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

Revenue Recognition

Refer to Note 3, *Significant Accounting Policies* and Note 27, *Related Party Disclosures* 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 the sales transactions are completed, when goods are delivered to the customers and all economic risks of the Group are transferred. While revenue recognition and measurement are not complex for the Group, revenue 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.

Our response
We performed the following audit procedures, among others, on revenue recognition:

- We evaluated and assessed the revenue recognition policy of the Group in accordance with Philippine Accounting Standards 18, *Revenue.*

- We evaluated and assessed the design and operating effectiveness of the key controls of the revenue process.

- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.

- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents to ascertain that revenue recognition criteria is met.

- We tested, on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to supporting documentation such as invoices and delivery documents to assess whether these transactions are recorded in the appropriate financial year.

- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.

- We tested, on a sampling basis, credit notes issued after the financial year, to identify and assess any credit notes that relate to sales transactions recognized during the financial year.

Valuation of Investments in Joint Ventures

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of Judgments, Estimates and Assumptions* and Note 11, *Investments in Joint Ventures* to the consolidated financial statements.

The risk
The Group has investments in joint ventures in Thailand. As required by PFRS, management performs an impairment test on the recoverability of investments in joint ventures when events or circumstances indicate that the carrying amount may not be recoverable.

As discussed in Note 11, the recoverable amount of investments in joint ventures has been determined based on a valuation using the discounted cash flows model. The valuation method used is complex and judgmental in nature, utilizing assumptions based on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response
We performed the following audit procedures, among others, on the valuation of investments in joint ventures:

- We evaluated and assessed management's methodology in determining any potential indicators of impairment.

- We assessed management's determination of the recoverable amount based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.

- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, cost of inflation and discount rates. Our own valuation specialist assisted us in evaluating the model used and assumptions applied.

- We performed sensitivity analyses on the key assumptions used in the model.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 Noel A. Baladiang.

R.G. MANABAT & CO.

noelbaladiang

NOEL A. BALADIANG
Partner
CPA License No. 106166
SEC Accreditation No. 1473-A, Group A, valid until April 30, 2018
Tax Identification No. 223-804-972
BIR Accreditation No. 08-001987-33-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. 6615125MD
Issued January 3, 2018 at Makati City

March 14, 2018
Makati City, Metro Manila

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(In Thousands)

	Note	**2017**	2016
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 32, 33*	**P198,767**	P777,305
Trade and other receivables - net	*4, 8, 32, 33*	**1,714,662**	2,466,737
Inventories	*4, 9*	**3,323,655**	3,034,586
Prepaid expenses and other current assets	*10, 32, 33*	**1,420,495**	1,496,315
Total Current Assets		**6,657,579**	7,774,943
Noncurrent Assets			
Investments in joint ventures	*4, 11*	**346,290**	465,637
Property, plant and equipment - net	*4, 12*	**4,997,516**	5,356,656
Goodwill - net	*4, 13*	**126,863**	126,863
Deferred tax assets - net	*4, 18*	**673,138**	821,094
Other noncurrent assets - net	*4, 14, 32, 33*	**515,890**	616,749
Total Noncurrent Assets		**6,659,697**	7,386,999
		P13,317,276	P15,161,942
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*15, 32, 33*	**P5,532,340**	P7,998,111
Accounts payable and accrued expenses	*16, 32, 33*	**2,009,854**	1,896,452
Income and other taxes payable		**109,894**	176,093
Current maturities of long-term debt - net of debt issue costs	*17, 32, 33*	**114,285**	114,286
Total Current Liabilities		**7,766,373**	10,184,942
Noncurrent Liabilities			
Retirement liabilities	*29*	**536,970**	431,978
Long-term debt - net of current maturities and debt issue costs	*17, 32, 33*	**-**	114,285
Total Noncurrent Liabilities		**536,970**	546,263
Total Liabilities		**8,303,343**	10,731,205
Equity	*19*		
Capital stock		**399,063**	399,063
Additional paid-in capital		**2,539,454**	2,539,454
Equity reserves		**(396,001)**	(376,954)
Retained earnings:			
Appropriated		**2,500,000**	2,500,000
Unappropriated		**2,641,390**	2,039,147
Treasury stock		**(2,669,973)**	(2,669,973)
Total Equity		**5,013,933**	4,430,737
		P13,317,276	P15,161,942

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands, Except Per Share Data)

	Note	**2017**	2016	2015
CONTINUING OPERATIONS				
SALES	*27*	**P20,892,379**	P18,572,497	P16,554,541
COST OF SALES	*20*	**15,624,652**	13,886,765	12,181,764
GROSS PROFIT		**5,267,727**	4,685,732	4,372,777
SELLING AND MARKETING EXPENSES	*21*	**(2,132,714)**	(1,924,081)	(1,842,708)
GENERAL AND ADMINISTRATIVE EXPENSES	*22*	**(1,827,701)**	(1,844,907)	(1,892,963)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*15, 17, 25*	**(275,515)**	(395,754)	(486,159)
EQUITY IN NET LOSSES OF JOINT VENTURES	*11*	**(186,278)**	(96,635)	(109,667)
INTEREST INCOME	*7, 27*	**23,989**	23,359	29,843
GAIN (LOSS) ON DISPOSAL/ RETIREMENT OF PROPERTY AND EQUIPMENT	*12*	**(2,097)**	626	125,589
OTHER INCOME (CHARGES) - Net	*26*	**81,037**	60,358	(50,885)
INCOME BEFORE INCOME TAXES		**948,448**	508,698	145,827
INCOME TAX EXPENSE	*18*	**(346,205)**	(147,313)	(509,896)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		**602,243**	361,385	(364,069)
LOSS AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*6*	**-**	-	(21,527)
NET INCOME (LOSS)		**P602,243**	P361,385	(P385,596)
Basic and Diluted Earnings (Loss) Per Share	*30*	**P1.93**	P1.09	(P1.52)
Basic and Diluted Earnings (Loss) Per Share - Continuing Operations	*30*	**P1.93**	P1.09	(P1.44)

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

	Note	**2017**	2016	2015
NET INCOME (LOSS)		**P602,243**	P361,385	(P385,596)
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that may be reclassified to profit or loss				
Share in other comprehensive income (loss) of joint ventures	*11*	**66,932**	37,422	(24,971)
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*29*	**(122,827)**	(102,568)	(182,704)
Income tax benefit	*18*	**36,848**	30,771	54,811
OTHER COMPREHENSIVE LOSS - Net of tax		**(19,047)**	(34,375)	(152,864)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax		**P583,196**	P327,010	(P538,460)

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

		Capital Stock		Additional	Equity Reserves		Retained Earnings		Treasury	
				Paid-in	Reserve for Retirement	Cumulative Translation				
	Note	Common	Preferred	Capital	Plan	Adjustments	Appropriated	Unappropriated	Stock	Total
As of January 1, 2017		**P345,625**	**P53,438**	**P2,539,454**	**(P335,365)**	**(P41,589)**	**P2,500,000**	**P2,039,147**	**(P2,669,973)**	**P4,430,737**
Share in other comprehensive income of joint ventures	11	-	-	-	-	**66,932**	-	-	-	**66,932**
Equity reserve for retirement plan	29	-	-	-	**(85,979)**	-	-	-	-	**(85,979)**
Other comprehensive income (loss)		-	-	-	**(85,979)**	**66,932**	-	-	-	**(19,047)**
Net income		-	-	-	-	-	-	**602,243**	-	**602,243**
Total comprehensive income (loss)		-	-	-	**(85,979)**	**66,932**	-	**602,243**	-	**583,196**
As of December 31, 2017	19	**P345,625**	**P53,438**	**P2,539,454**	**(P421,344)**	**P25,343**	**P2,500,000**	**P2,641,390**	**(P2,669,973)**	**P5,013,933**
As of January 1, 2016		P345,625	P53,438	P2,539,454	(P263,568)	(P79,011)	P2,500,000	P1,677,762	(P2,669,973)	P4,103,727
Share in other comprehensive income of joint ventures	11	-	-	-	-	37,422	-	-	-	37,422
Equity reserve for retirement plan	29	-	-	-	(71,797)	-	-	-	-	(71,797)
Other comprehensive income (loss)		-	-	-	(71,797)	37,422	-	-	-	(34,375)
Net income		-	-	-	-	-	-	361,385	-	361,385
Total comprehensive income (loss)		-	-	-	(71,797)	37,422	-	361,385	-	327,010
As of December 31, 2016	19	P345,625	P53,438	P2,539,454	(P335,365)	(P41,589)	P2,500,000	P2,039,147	(P2,669,973)	P4,430,737

Forward

		Capital Stock		Additional Paid-in	Equity Reserves		Retained Earnings		Treasury	
	Note	Common	Preferred	Capital	Reserve for Retirement Plan	Cumulative Translation Adjustments	Appropriated	Unappropriated	Stock	Total
As of January 1, 2015		P345,625	P53,438	P2,539,454	(P135,675)	(P54,040)	P2,500,000	P2,063,358	(P2,669,973)	P4,642,187
Share in other comprehensive loss of joint ventures	*11*	-	-	-	-	(24,971)	-	-	-	(24,971)
Equity reserve for retirement plan	29	-	-	-	(127,893)	-	-	-	-	(127,893)
Other comprehensive loss		-	-	-	(127,893)	(24,971)	-	-	-	(152,864)
Net loss		-	-	-	-	-	-	(385,596)	-	(385,596)
Total comprehensive loss		-	-	-	(127,893)	(24,971)	-	(385,596)	-	(538,460)
As of December 31, 2015	*19*	P345,625	P53,438	P2,539,454	(P263,568)	(P79,011)	P2,500,000	P1,677,762	(P2,669,973)	P4,103,727

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

	Note	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax from:				
Continuing operations		**P948,448**	P508,698	P145,827
Discontinued operations	6	**-**	-	(30,753)
		948,448	508,698	115,074
Adjustments for:				
Depreciation and amortization	*6, 12, 14, 23*	**630,855**	638,123	644,647
Interest expense and other financing charges	*15, 17, 25*	**275,515**	395,754	486,159
Provision for impairment losses	*8, 13, 14, 22, 26*	**44,653**	138,300	284,052
Write-down of inventories to net realizable value	*9, 20*	**179,052**	104,451	195,683
Equity in net losses of joint ventures	*11*	**186,278**	96,635	109,667
Retirement expense	*29*	**91,291**	64,423	56,826
Net derivative loss	*26*	**7,946**	6,111	702
Loss (gain) on disposal/ retirement of property and equipment - net	*6, 12*	**2,097**	(626)	(162,923)
Net unrealized foreign exchange loss (gain)	*26*	**215**	(752)	2,081
Interest income	*6, 7, 27*	**(23,989)**	(23,359)	(29,844)
Operating income before working capital changes		**2,342,361**	1,927,758	1,702,124
Decrease (increase) in:				
Trade and other receivables		**749,318**	310,976	800,143
Inventories		**(477,765)**	(48,213)	(624,127)
Prepaid expenses and other current assets		**(89,227)**	(135,492)	60,556
Increase (decrease) in:				
Accounts payable and accrued expenses		**119,810**	(330,916)	(37,314)
Income and other taxes payable		**(57,138)**	3,577	(32,528)
Cash generated from operations		**2,587,359**	1,727,690	1,868,854
Interest received		**23,915**	23,405	27,710
Income taxes paid		**(491)**	(22,979)	(30,430)
Contribution to retirement plan	*29*	**(109,126)**	(96,242)	(97,077)
Net cash flows provided by operating activities		**2,501,657**	1,631,874	1,769,057
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	*12*	**(217,547)**	(381,925)	(232,743)
Decrease in other noncurrent assets		**(1)**	11,792	38,060
Proceeds from sale of NAB assets	*6*	**-**	-	438,283
Proceeds from disposal of property and equipment	*12*	**362**	1,438	139,717
Net cash flows provided by (used in) investing activities		**(217,186)**	(368,695)	383,317

Forward

	Note	**2017**	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings	*15*	**P64,908,713**	P74,243,387	P81,992,016
Collection of subscription receivables		**-**	583	4,687
Payments of:				
Short-term borrowings	*15*	**(67,374,484)**	(74,651,736)	(83,669,996)
Long-term borrowings	*17*	**(114,286)**	(114,286)	(114,286)
Interest and other financing charges		**(282,619)**	(411,170)	(498,989)
Cash dividends		**-**	(8)	(23)
Net cash flows used in financing activities		**(2,862,676)**	(933,230)	(2,286,591)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(333)**	1,555	101
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(578,538)**	331,504	(134,116)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**777,305**	445,801	579,917
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**P198,767**	P777,305	P445,801

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

Ginebra San Miguel Inc. (GSMI or the Company), a subsidiary of San Miguel Corporation (SMC or the Parent Company), was incorporated in the Philippines on July 10, 1987. Top Frontier Investment Holdings, Inc. (Top Frontier) is the ultimate parent company of the Group.

The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interests in joint ventures.

The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on The Philippine Stock Exchange, Inc.

The Group is primarily engaged in manufacturing and selling of alcoholic and nonalcoholic beverages (NAB), until the sale of the NAB assets to San Miguel Brewery Inc. (SMB) in 2015 (Note 6).

On November 3, 2017, the Board of Directors (BOD) of SMC approved the subscription to additional 4,242,549,130 common shares of stock of San Miguel Pure Foods Company Inc. (SMPFC) (the New Shares).

The subscription to the New Shares shall be paid in full through the execution of a Deed of Exchange between SMC and SMPFC to convey 7,859,319,270 common shares of SMB and 216,972,000 common shares of the Company held by SMC. This will result in the consolidation of the Food and Beverage Business units of SMC under SMPFC to be renamed as San Miguel Food and Beverage, Inc.

The above corporate actions were approved by the stockholders of SMPFC in a special meeting held on January 18, 2018. The completion of the transaction is subject to certain regulatory approvals as of March 14, 2018.

The registered office address of the Company is 3rd and 6th Floor, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City.

2. Basis of Preparation

<u>Statement of Compliance</u>
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 14, 2018.

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

Items	Measurement Basis
Derivative financial instruments	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Company. All financial information are rounded off to the nearest thousand (000), except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

Name of Subsidiary	Country of Incorporation
Distileria Bago, Inc. (DBI)	Philippines
East Pacific Star Bottlers Phils Inc. (EPSBPI)	Philippines
Agricrops Industries Inc. (AII)	Philippines
Healthy Condiments, Inc. (HCI)	Philippines
Crown Royal Distillers, Inc. (CRDI)	Philippines
Ginebra San Miguel International Ltd. (GSMIL)	British Virgin Islands (BVI)
GSM International Holdings Limited (GSMIHL)	BVI
Global Beverages Holdings Limited (GBHL)	BVI
Siam Holdings Limited (SHL)	BVI

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 Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

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 and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the 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.

Amendments to Standards Adopted in 2017

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

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

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at financial assets at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

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

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

  The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect any significant impact except for the effect of applying the expected credit loss model in estimating impairment. The Group has not yet reasonably estimated the potential impact on its consolidated financial statements.

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

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

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedients. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. The Group has not yet reasonably estimated the potential impact of PFRS 15 on its consolidated financial statements.

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

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

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

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

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

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

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

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

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

- Prepayment Features with Negative Compensation *(Amendments to PFRS 9)*. The amendments cover the following areas: (a) *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- Long-term Interests in Associates and Joint Ventures *(Amendments to PAS 28)*. The amendment requires 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 long-term interests (LTIs) 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 PFRS 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 amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

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

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

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

Financial Assets

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

The Group has no financial assets classified as AFS financial assets and HTM investments as of December 31, 2017 and 2016.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets are classified under this category (Notes 10, 32 and 33).

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

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

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

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category (Notes 7, 8, 14, 32 and 33).

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

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Notes 16, 32 and 33).

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

The Group's liabilities arising from its trade or borrowings such as notes payable, accounts payable and accrued expenses and long-term debt are included under this category (Notes 15, 16, 17, 32 and 33).

Derivative Financial Instruments and Hedging
Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

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

Inventories
Finished goods and materials and supplies are valued at the lower of cost and net realizable value (NRV).

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

Finished goods	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; 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.

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" under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful life of ten years. Amortization of deferred containers is included under "General and administrative expenses" account in the consolidated statements of income.

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 "General 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.

Transactions under Common Control
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

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 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 arising from changes in the joint venture's other comprehensive income. The Group's share of 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 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 are 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.

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

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

Depreciation 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 - 10
Buildings and improvements	20 - 50
Transportation equipment	5
Machinery and equipment	3 - 40
Furniture, fixtures and other equipment	2 - 5
Leasehold improvements	10 - 30 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.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

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

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

Amortization of computer software is computed using the straight-line method over the estimated useful life of four to ten years.

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 in joint ventures, property, plant and equipment, intangible assets, 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 is tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the 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 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 Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

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

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

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

Revenue from Services
Revenue is recognized upon performance of services, 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.

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

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

Revenue from tolling fees is recognized when related services are rendered.

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.

Other income is recognized when earned.

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 Company's Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Company. Such transactions are handled centrally by the Company.

Share-based transactions in which the Company grants option rights to its equity instruments directly to the employees of the Group are accounted for as equity-settled transactions.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

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

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

Research Costs
Research costs are expensed as incurred.

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
- 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.

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

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

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

Foreign currency differences are recognized in other comprehensive income and presented in the "Cumulative translation adjustments" account in the consolidated statements of changes in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the cumulative translation adjustments 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 investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified 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 "Cumulative translation adjustments" account in the consolidated statements of changes in equity.

The functional currency of GSMIL, GSMIHL, GBHL and SHL is the Philippine peso, while that of Thai San Miguel Liquor Co. Limited (TSML) and Thai Ginebra Trading (TGT) is the Thailand Baht (THB). The assets and liabilities of TSML and TGT are translated into the presentation currency of the Company at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year.

<u>Taxes</u>
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 and 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 "Income and other taxes payable" accounts in the consolidated statements of financial position.

Assets Held for Sale
The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision on distribution or sale will be withdrawn. Management must be committed to the sale or distribution within one year from date of classification.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued Operations
A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which: (1) represent a separate major line of business or geographic area of operations; (2) is part of a single coordinated plan to dispose a separate major line of business or graphic area of operations; or (3) is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statements of income are re-presented as if the operation had been discontinued from the start of the comparative period.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "Loss after income tax from discontinued operations" in the consolidated statements of income.

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 (loss) for the period attributable to equity holders of the 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 5 to the consolidated financial statements. The President (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:

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 as part of "Other income (charges)" account in the consolidated statements of income amounted to P240, P1,394 and P4,733 in 2017, 2016 and 2015, respectively (Notes 26 and 28).

Rent expense recognized in the consolidated statements of income amounted to P118,085, P90,542 and P145,102 in 2017, 2016 and 2015, respectively (Notes 6, 20, 21, 22 and 28).

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 TSML and TGT as joint ventures (Note 11).

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 10, 11, 12, 13, 16, 29, 32 and 33.

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

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits amounted to P551,234 and P507,732 as of December 31, 2017 and 2016, respectively (Notes 8 and 14).

The carrying amounts of trade and other receivables, and noncurrent receivables and deposits amounted to P1,715,788 and P2,509,457 as of December 31, 2017 and 2016, respectively (Notes 8 and 14).

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 P520,136 and P391,756 as of December 31, 2017 and 2016, respectively (Note 9).

The carrying amount of inventories amounted to P3,323,655 and P3,034,586 as of December 31, 2017 and 2016, respectively (Note 9).

Estimated Useful Lives of Property, Plant and Equipment and Deferred Containers. The Group estimates the useful lives of property, plant and equipment 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 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 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 and deferred containers would increase the recorded cost of sales, selling and marketing expenses, general and administrative expenses and decrease noncurrent assets.

There are no changes in the estimated useful lives of property, plant and equipment and deferred containers as of December 31, 2017 and 2016.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P5,305,116 and P5,664,256 as of December 31, 2017 and 2016, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P7,278,907 and P6,813,828 as of December 31, 2017 and 2016, respectively (Note 12).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P197,596 and P239,534 as of December 31, 2017 and 2016, respectively. Accumulated amortization of deferred containers amounted to P228,448 and P186,510 as of December 31, 2017 and 2016, respectively (Note 14).

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.

There are no changes in the useful lives of computer software as of December 31, 2017 and 2016.

Intangible assets, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P39,359 and P52,593 as of December 31, 2017 and 2016, respectively. Accumulated amortization of intangible assets amounted to P81,716 and P65,251 as of December 31, 2017 and 2016, respectively (Note 14).

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P126,863 as of December 31, 2017 and 2016 (Note 13).

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 P673,138 and P821,094 as of December 31, 2017 and 2016, respectively (Note 18).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments in joint ventures, property, plant and equipment, intangible assets, 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 investments in joint ventures and property, plant and equipment amounted to P307,600 and P493,800 as of December 31, 2017 and 2016, respectively (Notes 11 and 12).

The combined carrying amounts of investments in joint ventures, property, plant and equipment, intangible assets and deferred containers amounted to P5,580,761 and P6,114,420 as of December 31, 2017 and 2016 respectively (Notes 11, 12 and 14).

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 P1,237,920 and P1,019,640 as of December 31, 2017 and 2016, 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 ARO as of December 31, 2017 and 2016. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

5. Segment Information

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

The Group is organized into two major operating segments namely alcoholic and NAB.

The alcoholic segment produces and markets alcoholic beverages.

The nonalcoholic segment was involved in the production and marketing of NAB.

For each of the operating segments, the chief operating decision maker reviews internal management reports on at least monthly basis.

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist primarily of operating cash, trade and other receivables, inventories, assets held for sale and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and income and other taxes payable. Segment assets and liabilities do not include deferred taxes.

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.

The Group's revenue from external customers and noncurrent assets are mainly in the Philippines.

Financial information about operating segments follows:

	For the Years Ended December 31, 2017, 2016 and 2015								
	Alcoholic			Nonalcoholic (Note 6)			Total		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Sales	**P20,892,379**	P18,572,497	P16,461,673	**P -**	P -	P165,899	**P20,892,379**	P18,572,497	P16,627,572
Result									
Segment result	**P1,307,312**	P916,744	P711,800	**P -**	P -	(P140,399)	**P1,307,312**	P916,744	P571,401
Interest expense and other financing charges							**(275,515)**	(395,754)	(486,159)
Interest income							**23,989**	23,359	29,843
Equity in net losses of joint ventures							**(186,278)**	(96,635)	(109,667)
Other income (losses) - net							**78,940**	60,984	109,656
Income tax expense							**(346,205)**	(147,313)	(500,670)
Net Income (Loss)							**P602,243**	P361,385	(P385,596)
Other Information									
Segment assets	**P11,655,095**	P13,131,599	P13,394,176	**P -**	P -	P70,901	**P11,655,095**	P13,131,599	P13,465,077
Investments in joint ventures							**346,290**	465,637	524,850
Goodwill							**126,863**	126,863	126,863
Other noncurrent assets - net							**515,890**	616,749	707,851
Deferred tax assets							**673,138**	821,094	810,305
Consolidated Total Assets							**P13,317,276**	P15,161,942	P15,634,946
Segment liabilities	**P2,546,824**	P2,328,430	P2,550,039	**P -**	P -	P47,239	**P2,546,824**	P2,328,430	P2,597,278
Notes payable							**5,532,340**	7,998,111	8,406,460
Long-term debt - net of debt issue costs							**114,285**	228,571	342,857
Income and other taxes payable							**109,894**	176,093	184,624
Consolidated Total Liabilities							**P8,303,343**	P10,731,205	P11,531,219
Capital expenditures	**P217,547**	P381,925	P232,743	**P -**	P -	P -	**P217,547**	P381,925	P232,743
Depreciation and amortization							**630,855**	638,123	644,647
Noncash items other than depreciation							**223,920**	241,999	481,816

6. Discontinued Operation

On December 5, 2014, the BOD of GSMI authorized the sale and transfer of certain NAB assets of the Company to SMB, a related party, consisting of property, plant and equipment as of December 31, 2014 and inventories as of March 31, 2015 ("Transaction"). As such, the Company reclassified the NAB assets (Property and equipment - P193,941; and Finished goods and other inventories - P353,765) as held for sale as of December 31, 2014.

In 2015, the Company received a total of P445,642 for the sale of the assets used in its NAB business and executed the following: (a) Deed of Sale of property, plant and equipment ("NAB PPE") executed on April 1, 2015; and (b) Deed of Sale of finished goods inventories and other inventories consisting of containers on hand, raw materials, goods-in-process and packaging materials executed on April 30, 2015. The purchase price is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties. As a result of the Transaction, the Group recognized a gain amounting to P37,334, included as part of "Gain on sale of property and equipment" account in the 2015 consolidated statement of income.

Certain accounts in the consolidated statements of income have been reclassified to show the discontinued operations separately from continuing operations. Details of the discontinued operations are as follows:

	2015
Sales	P73,031
Cost of sales	61,967
Gross profit	11,064
Selling and marketing expenses	(65,176)
General and administrative expenses	(11,593)
Gain on sale of property and equipment	37,334
Other income (charges) - net	(2,382)
Loss before income tax	(30,753)
Income tax benefit	(9,226)
Net loss	(P21,527)
Basic and Diluted Loss Per Share	(P0.08)

The net cash flows used in operating activities of NAB segment amounted to P3,137 in 2015.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2017**	2016
Cash in banks and on hand		**P119,481**	P317,827
Short-term investments		**79,286**	459,478
	32, 33	**P198,767**	P777,305

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to P2,204, P2,139 and P3,193 in 2017, 2016 and 2015, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2017**	2016
Trade		**P954,998**	P1,728,594
Amounts owed by related parties	27	**860,877**	838,300
Non-trade	31	**286,377**	285,673
		2,102,252	2,852,567
Less allowance for impairment losses		**387,590**	385,830
	32, 33	**P1,714,662**	P2,466,737

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

Non-trade receivables consist of the following: (i) receivable from employees amounting to P20,796 and P11,233 as of December 31, 2017 and 2016, respectively; (ii) sale of raw materials amounting to P131,676 and P130,926 as of December 31, 2017 and 2016; (iii) tax certificate receivables amounting to P29,760 and P26,997 as of December 31, 2017 and 2016, respectively; and (iv) miscellaneous receivables amounting to P104,145 and P116,517 as of December 31, 2017 and 2016, respectively. These are generally collectible on demand.

The movements in allowance for impairment losses are as follows:

	Note	**2017**	2016
Balance at beginning of year		**P385,830**	P324,361
Charges for the year	22	**2,911**	102,482
Amounts written off		**(1,151)**	(41,013)
Balance at end of year		**P387,590**	P385,830

The aging of receivables is as follows:

December 31, 2017	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P591,663**	**P78,712**	**P64,418**	**P734,793**
Past due:				
1 - 30 days	**98,214**	**12,175**	**12,704**	**123,093**
31 - 60 days	**16,296**	**15,299**	**36,121**	**67,716**
61 - 90 days	**1,433**	**2,244**	**14,815**	**18,492**
Over 90 days	**247,391**	**177,947**	**732,820**	**1,158,158**
	P954,997	**P286,377**	**P860,878**	**P2,102,252**

December 31, 2016	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P844,817	P58,158	P15,176	P918,151
Past due:				
1 - 30 days	531,899	34,340	46,328	612,567
31 - 60 days	75,091	18,886	1,327	95,304
61 - 90 days	17,935	4,172	496	22,603
Over 90 days	258,851	170,118	774,973	1,203,942
	P1,728,593	P285,674	P838,300	P2,852,567

Various collaterals for trade receivables such as bank guarantees, cash bond, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that neither past due nor impaired and unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 32).

9. Inventories

Inventories consist of:

	2017	2016
At NRV:		
Finished goods	**P1,166,428**	P641,602
Materials and supplies	**2,117,187**	2,347,381
Containers	**40,040**	45,603
	P3,323,655	P3,034,586

The cost of finished goods amounted to P1,263,428 and P747,602 as of December 31, 2017 and 2016, respectively.

The cost of materials and supplies amounted to P2,540,323 and P2,633,137 as of December 31, 2017 and 2016, respectively.

The cost of containers approximates net realizable value as of December 31, 2017 and 2016.

The amount of inventories recognized as expense amounted to P7,278,069, P6,630,995 and P5,632,360 in 2017, 2016 and 2015, respectively (Note 20).

The write-down of inventories to net realizable value amounted to P179,052 P104,451 and P195,683 in 2017, 2016 and 2015, respectively (Note 20). The Group has written off inventories amounting to P50,672 and P30,364 in 2017 and 2016, respectively.

The accumulated amount of write-down of inventories amounted to P520,136 and P391,756 as of December 31, 2017 and 2016, respectively.

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2017	2016
Prepaid taxes		**P1,373,741**	P1,423,035
Derivative assets	32, 33	**1,071**	242
Others	27	**45,683**	73,038
		P1,420,495	P1,496,315

Prepaid taxes represent prepayments of excise taxes on alcohol and income taxes.

"Others" include amounts owed to related party amounting to P236 as of December 31, 2017 (Note 27).

The methods and assumptions used to estimate the fair value of derivative assets are discussed in Note 33.

11. Investments in Joint Ventures

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 the Group 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.

b. TGT

The Group 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 Group's investments in joint ventures which are accounted for using the equity method are as follows:

TSML	2017	2016	2015
Current assets (including cash and cash equivalents - 2017: P233,491, 2016: P177,380 and 2015: P199,953)	**P845,920**	P1,438,694	P1,357,379
Noncurrent assets	**1,319,986**	1,318,574	1,349,762
Current liabilities (including financial liabilities - 2017: P1,334,058, 2016: P1,264,900 and 2015: P1,240,700)	**(1,393,982)**	(1,304,691)	(1,344,584)
Noncurrent liabilities (including financial liabilities)	**(676)**	(825)	(1,644)
Net assets	**771,248**	1,451,752	1,360,913
Percentage of ownership	**44.9%**	44.9%	44.9%
Amount of investment in joint venture	**P346,290**	P651,837	P611,050
Carrying amount of investment in joint venture - net	**P346,290**	P465,637	P524,850

TSML	2017	2016	2015
Sales	**P1,570,655**	P1,321,523	P1,195,033
Cost of sales (including depreciation - 2017: P124,910; 2016: P117,101 and 2015: P111,751)	**(1,463,506)**	(1,205,991)	(1,120,469)
Operating expenses (including depreciation - 2017: P6,330, 2016: P6,135 and 2015: P5,606)	**(884,247)**	(68,155)	(71,435)
Other charges (including interest expense - 2017: P52,419, 2016: P49,931 and 2015: P58,494)	**(52,475)**	(39,883)	(55,393)
Net income (loss)	**(829,573)**	7,494	(52,264)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net income (loss)	**(372,478)**	3,365	(23,467)
Share in other comprehensive income (loss)	**66,932**	37,422	(24,971)
Total comprehensive income (loss)	**(P305,546)**	P40,787	(P48,438)

TGT	2017	2016	2015
Current assets (including cash and cash equivalents - 2017: P9,610, 2016: P7,852 and 2015: P26,126)	**P24,628**	P21,773	P40,096
Noncurrent assets	**159**	5,525	5,676
Current liabilities	**(904,153)**	(818,482)	(785,937)
Noncurrent liabilities	**(595)**	(406)	(299)
Net liabilities	**(879,961)**	(791,590)	(740,464)
Percentage of ownership	**44.9%**	44.9%	44.9%
Carrying amount of investment in joint venture	**(P395,102)**	(P355,424)	(P332,468)

TGT	2017	2016	2015
Sales	**P114,082**	P105,252	P77,141
Cost of sales	**(98,253)**	(91,526)	(68,359)
Operating expenses (including depreciation - 2017: P10, 2016: P44 and 2015: P151)	**(16,783)**	(16,854)	(23,986)
Other income	**169**	112	850
Net loss	**(785)**	(3,016)	(14,354)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net loss	**(352)**	(1,354)	(6,445)
Share in other comprehensive loss	**(39,679)**	(21,601)	(13,954)
Total comprehensive income (loss)	**(P40,031)**	(P22,955)	(P20,399)

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. 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 2017 and 2016. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. 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. The difference between the carrying amount and the proportionate share in the net assets of TSML pertains to the impairment loss recognized amounting to P100,000 and P86,200 in 2016 and 2015, respectively, included as part of "Equity in net losses of joint ventures" account, in the consolidated statements of income.

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 4).

The Group discontinued recognizing its share in the net liabilities of TGT since the cumulative losses including the share in other comprehensive loss already exceed the cost of investment. If TGT reports profits subsequently, the Group 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 P395,102 and P355,424 as of December 31, 2017 and 2016, respectively.

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2016	P761,245	P1,863,657	P222,694	P8,305,339	P918,580	P139,991	P181,185	P12,392,691
Additions	-	148,855	-	-	-	-	233,070	381,925
Reclassifications	14,392	60,727	41,847	159,982	24,996	2,492	(322,374)	(17,938)
Disposals/Retirement	(1)	(142)	(34,820)	(179,795)	(63,836)	-	-	(278,594)
December 31, 2016	775,636	2,073,097	229,721	8,285,526	879,740	142,483	91,881	12,478,084
Additions	-	-	-	-	-	-	217,547	217,547
Reclassifications	8,310	38,545	56,204	74,408	32,970	14,323	(226,536)	(1,776)
Disposals/ Retirement	(66)	(10,859)	(4,574)	(36,198)	(58,135)	-	-	(109,832)
December 31, 2017	**783,880**	**2,100,783**	**281,351**	**8,323,736**	**854,575**	**156,806**	**82,892**	**12,584,023**
Accumulated Depreciation and Amortization								
January 1, 2016	181,237	907,955	196,141	4,472,141	721,959	30,831	-	6,510,264
Depreciation and amortization	4,899	62,368	18,266	421,991	68,613	5,223	-	581,360
Reclassifications	8	35	270	(339)	12	-	-	(14)
Disposals/Retirement	(1)	(97)	(34,725)	(179,123)	(63,836)	-	-	(277,782)
December 31, 2016	186,143	970,261	179,952	4,714,670	726,748	36,054	-	6,813,828
Depreciation and amortization	6,260	74,035	19,633	424,172	42,676	5,676	-	572,452
Reclassifications	20	4,923	60	(8,491)	1,246	2,242	-	-
Disposals/Retirement	(66)	(10,859)	(4,574)	(33,739)	(58,135)	-	-	(107,373)
December 31, 2017	**192,357**	**1,038,360**	**195,071**	**5,096,612**	**712,535**	**43,972**	-	**7,278,907**
Accumulated Impairment Losses								
December 31, 2016 and 2017	-	-	-	**307,600**	-	-	-	**307,600**
Carrying Amount								
December 31, 2016	P589,493	P1,102,836	P49,769	P3,263,256	P152,992	P106,429	P91,881	P5,356,656
December 31, 2017	**P591,523**	**P1,062,423**	**P86,280**	**P2,919,524**	**P142,040**	**P112,834**	**P82,892**	**P4,997,516**

The carrying amounts of unutilized machinery and equipment, net of accumulated impairment losses of P307,600 in 2017 and 2016, amounted to P9,711 and P16,185 as of December 31, 2017 and 2016, respectively.

The recoverable amount was determined by an independent property appraiser having appropriate recognized professional qualifications and recent experience in the category of the property being valued. The fair value of the property being appraised was determined using the replacement cost model. This approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices of materials, labor, contractor's overhead, profit and fees, and all other attendant's costs associated with its acquisition and installation in place. Adjustment is then made for accrued depreciation as evidenced by the observed condition and present and prospective serviceability in comparison with the new similar units.

The fair value of the distillation equipment has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

In 2015, the Group sold certain property located in Calumpit, Bulacan, Cauayan, Isabela and Tagoloan, Misamis Oriental for P139,717. The Group recognized a gain amounting to P125,589, included as part of "Gain (loss) on disposal/ retirement of property and equipment" account in the consolidated statement of income.

In 2016, the Group sold transportation equipment for P1,438. The Group recognized a gain amounting to P1,343, included as part of "Gain (loss) on disposal/ retirement of property and equipment" account in the consolidated statement of income.

In 2017, the Group sold fully depreciated transportation equipment for P362 and accordingly, recognized a gain for the same amount, included as part of "Gain (loss) on disposal/ retirement of property and equipment" account in the consolidated statement of income.

The carrying amount of certain property and equipment retired from use amounted to P2,459 and P717 as of December 31, 2017 and 2016, respectively, and accordingly recognized a loss for the same amount, included as part of "Gain (loss) on disposal/ retirement of property and equipment" account in the consolidated statement of income.

Depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P572,452, P581,360 and P567,609 in 2017, 2016 and 2015, respectively (Note 23). These amounts include annual amortization of capitalized interest amounting to P12,804, P12,319 and P12,072 in 2017, 2016 and 2015, respectively.

Interest amounting to P1,455, P4,847 and P2,471 were capitalized to machinery and equipment in 2017, 2016 and 2015, respectively (Note 25). The capitalization rates used to determine the amount of interest eligible for capitalization were 3.54%, 4.03% and 4.35% in 2017, 2016 and 2015, respectively. The unamortized capitalized borrowing costs amounted to P34,815 and P46,164 as of December 31, 2017 and 2016, respectively.

13. Goodwill

GSMI acquired 100% of the outstanding capital stock of EPSBPI in 2012 for a total consideration of P200,000. EPSBPI, which is considered a CGU, is a company primarily engaged in the manufacturing and bottling of alcoholic and non-alcoholic beverages. The acquisition resulted in the recognition of goodwill amounting to P226,863.

The recoverable amount of goodwill 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. 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 2017 and 2016. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. As a result of decline in operations resulting in lower sales forecast compared with previous years, the Group recognized impairment loss amounting to P100,000 in 2015 (Note 26). 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 4).

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

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

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

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

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2017**	2016
Deferred containers - net		**P197,596**	P239,534
Intangible assets - net		**39,359**	52,593
Noncurrent receivables and deposits - net	27, 32, 33	**1,126**	42,720
Others		**277,809**	281,902
		P515,890	P616,749

Noncurrent receivables and deposits - net mainly include: (i) trade receivables referred to legal and receivables from terminated dealers amounting to P41,742 as of December 31, 2016, net of allowance for impairment losses amounting to P163,644 and P121,902 as of December 31, 2017 and 2016, respectively. Provision for impairment losses recognized in the consolidated statements of income amounted to P41,742 and P35,818 in 2017 and 2016, respectively (Note 22). Receivables written-off amounted P10,723 in 2016; and (ii) security deposits amounting to P978 as of December 31, 2017 and 2016 (Note 27).

The movements in intangible assets pertaining to computer software are as follows:

	Note	**2017**	2016
Cost			
Balance at beginning of year		**P117,844**	P95,059
Additions		**3,231**	22,785
Balance at end of year		**121,075**	117,844
Accumulated Amortization			
Balance at beginning of year		**65,251**	50,609
Amortization	23	**16,465**	14,642
Balance at end of year		**81,716**	65,251
Carrying Amount		**P39,359**	P52,593

Amortization expense, included as part of "General and administrative expenses" account in the consolidated statements of income, amounted to P16,465 and P14,642 in 2017 and 2016, respectively (Note 22).

The movements in deferred containers are as follows:

	Note	**2017**	2016
Cost			
December 31, 2016 and 2017		**P426,044**	P426,044
Accumulated Amortization			
Balance at beginning of year		**186,510**	144,389
Amortization	23	**41,938**	42,121
Balance at end of year		**228,448**	186,510
Carrying Amount		**P197,596**	P239,534

Others mainly include: (i) input taxes on the acquisition of capitalizable assets amounting to P13,656 and P17,756 as of December 31, 2017 and 2016, respectively; and (ii) advances for a project pertaining to unassembled vacuum distillation equipment that is temporarily put on hold amounting to P264,146 as of December 31, 2017 and 2016.

15. Notes Payable

This account consists of unsecured short-term peso-denominated borrowings obtained from local banks for working capital requirements. These loans mature in three months or less and bear annual interest rates ranging from 2.00% to 4.50% and 2.00% to 5.00% in 2017 and 2016, respectively.

Changes in liabilities arising from financing activities:

Balance as of January 1, 2017	**P7,998,111**
Changes from financing cash flows	
Proceeds from borrowings	**64,908,713**
Payments of borrowings	**(67,374,484)**
Total changes from financing cash flows	**(2,465,771)**
Balance as of December 31, 2017	**P5,532,340**

Notes payable include interest-bearing amounts payable to a related party amounting to P2,504,900 and P2,684,800 as of December 31, 2017 and 2016, respectively (Note 27).

Interest expense on notes payable recognized in the consolidated statements of income amounted to P235,240, P346,443 and P423,187 in 2017, 2016 and 2015, respectively (Note 25).

The Group's exposure to interest rate and liquidity risks are discussed in Note 32.

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2017**	2016
Accounts payable		**P1,144,849**	P1,173,441
Amounts owed to related parties	27	**777,916**	631,740
Accrued expenses		**85,445**	88,868
Derivative liabilities	32, 33	**1,644**	2,403
	32, 33	**P2,009,854**	P1,896,452

Accounts payable are non-interest bearing and are generally on a 30 to 60-day term.

Accrued expenses consist of accrued vacation and sick leave, payroll, interest and dividends.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 33.

17. Long-term Debt

Long-term debt consists of:

	Note	2017	2016
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018		**P114,285**	P228,571
Less current maturities		**114,285**	114,286
	32, 33	**P -**	P114,285

GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to P800,000. 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 Philippine Dealing and Exchange Corporation page on the first day of each interest period. While overnight rate means the Bangko Sentral ng Pilipinas overnight reverse repo rate on interest rate settling date.

The Group is in compliance with the covenants of the debt agreement or obtained the necessary waivers as of December 31, 2017 and 2016.

Interest expense on long-term borrowings amounted to P5,616, P11,257 and P17,207 in 2017, 2016 and 2015, respectively (Note 25).

The long-term debt amounting to P114,285 will mature in 2018.

Changes in liabilities arising from financing activities:

Balance as of January 1, 2017	**P228,571**
Changes from financing cash flows	
Proceeds from borrowings	**-**
Payments of borrowings	**(114,286)**
Total changes from financing cash flows	**(114,286)**
Balance as of December 31, 2017	**P114,285**

Contractual terms of the Group's interest-bearing loans and exposure to interest rate and liquidity risks are discussed in Note 32.

18. Income Taxes

The components of income tax expense from continuing operations are shown below:

	2017	2016	2015
Current	**P161,401**	P127,331	P149,380
Deferred	**184,804**	19,982	360,516
	P346,205	P147,313	P509,896

The income tax expense from continuing operations exclude the Group's share of the income tax benefit from the discontinued operation of P9,226 in 2015, which have been included in loss from discontinued operation, net of tax (Note 6).

Deferred tax assets arise from the following:

December 31, 2017	Balance at Beginning of the Year - net	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of the Year - net
NOLCO	P -	P5,989	P -	P5,989
MCIT	253,866	(248,815)	-	5,051
Provision for impairment losses	277,167	13,051		290,218
Equity reserve for retirement plan	143,728	-	36,848	180,576
Allowance for write-down of inventories	117,527	38,514	-	156,041
Past service costs	39,702	6,249	-	45,951
Various accruals	16,664	2,341	-	19,005
Derivative liabilities - net	649	(477)	-	172
Unrealized foreign exchange loss (gain) - net	(225)	289	-	64
Net defined benefit retirement surplus	(14,135)	(5,350)	-	(19,485)
Unamortized capitalized borrowing costs	(13,849)	3,405	-	(10,444)
Net asset	P821,094	(P184,804)	P36,848	P673,138

December 31, 2016	Balance at Beginning of the Year - net	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of the Year - net
NOLCO	P157,639	(P157,639)	P -	P -
MCIT	165,094	88,772	-	253,866
Provision for impairment losses	251,198	25,969	-	277,167
Equity reserve for retirement plan	112,957	-	30,771	143,728
Allowance for write-down of inventories	95,301	22,226	-	117,527
Past service costs	30,472	9,230	-	39,702
Various accruals	17,789	(1,125)	-	16,664
Derivative liabilities - net	(90)	739	-	649
Unrealized foreign exchange loss (gain) - net	625	(850)	-	(225)
Net defined benefit retirement surplus	(4,589)	(9,546)	-	(14,135)
Unamortized capitalized borrowing costs	(16,091)	2,242	-	(13,849)
Net asset	P810,305	(P19,982)	P30,771	P821,094

The movements of the net deferred tax assets are accounted for as follows:

	2017	2016
Amount charged to profit or loss	**(P184,804)**	(P19,982)
Amount charged to other comprehensive income	**36,848**	30,771
	(P147,956)	P10,789

As of December 31, 2017, the NOLCO of the Group that can be claimed as deduction from future taxable income are as follows:

Year Incurred	NOLCO	Expired	Utilized	Balance	Expiry Year
2013	P1,508,367	(P819,988)	(P688,379)	P -	2016
2014	18,085	(18,085)	-	-	2017
2015	9,926	-	-	9,926	2018
2017	19,963	-	-	19,963	2020
	P1,556,341	(P838,073)	(P688,379)	P29,889	

As of December 31, 2017, deferred tax asset has not been recognized in respect of NOLCO amounting to P9,926, as management believes it is not probable that future taxable income will be available against which the Group can utilize the benefit therefrom.

As of December 31, 2017, the MCIT of the Group that can be claimed as deduction from corporate income tax due are as follows:

Year Incurred	MCIT	Expired	Utilized	Balance	Expiry Year
2014	P78,128	(P468)	(P77,660)	P -	2017
2015	88,227	(658)	(87,569)	-	2018
2016	88,637	-	(88,637)	-	2019
2017	5,051	-	-	5,051	2020
	P260,043	(P1,126)	(P253,866)	P5,051	

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2017	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**0.07%**	(0.12%)	(0.82%)
Others	**6.43%**	(0.92%)	320.48%
Effective income tax rate	**36.50%**	28.96%	349.66%

19. Equity

a. *Capital Stock*

Common Shares

The Company has 460,000,000 authorized common shares with par value of P1.00 per share and offer price of P26.85 and P12.70 as of December 31, 2017 and 2016, respectively.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Company has a total of 705 and 722 stockholders as of December 31, 2017 and 2016, respectively.

The number of issued and outstanding shares of common stock are as follows:

	2017	2016
Issued shares	**345,625,332**	345,625,332
Less treasury shares	**59,297,491**	59,297,491
Outstanding shares	**286,327,841**	286,327,841

Preferred Shares

The Company has 100,000,000 authorized preferred shares with par value of P1.00 per share as of December 31, 2017 and 2016.

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.

The number of issued and outstanding shares of preferred stock are as follows:

	2017	2016
Issued shares	**53,437,585**	53,437,585
Less treasury shares	**20,650,700**	20,650,700
Outstanding shares	**32,786,885**	32,786,885

b. *Treasury Shares*

Treasury shares consist of:

	2017	2016	2015
Common	**59,297,491**	59,297,491	59,297,491
Preferred	**20,650,700**	20,650,700	20,650,700
	79,948,191	79,948,191	79,948,191

There were no movements in the number of shares held in treasury in 2017, 2016 and 2015.

c. *Unappropriated Retained Earnings*

No dividends were declared in 2017, 2016 and 2015.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net losses of joint ventures amounting to P63,031, P239,940 and P254,350 in 2017, 2016 and 2015, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The unappropriated retained earnings of the Group is restricted in the amount of P2,669,973 in 2017, 2016 and 2015, representing the cost of common and preferred shares held in treasury.

d. Appropriated Retained Earnings

As of December 31, 2017 and 2016, the Company's BOD approved the appropriation of retained earnings amounting to P2,500,000 for the purpose of capital investment for the expansion of the plant facilities, including but not limited to equipment rehabilitation, to accommodate new product line and the increase in volume requirements until 2018.

20. Cost of Sales

Cost of sales consist of:

	Note	**2017**	2016	2015
Inventories	9	**P7,278,069**	P6,630,995	P5,632,360
Taxes and licenses		**6,689,332**	5,747,814	4,941,447
Utilities and supplies		**470,506**	479,843	487,832
Depreciation and amortization	12, 23	**322,922**	306,366	302,378
Personnel	24, 29	**235,035**	186,021	156,251
Write-down of inventories to net realizable value	9	**179,052**	104,451	195,683
Repairs and maintenance		**174,422**	157,938	153,326
Outside services		**137,063**	137,066	174,084
Tolling fees		**63,609**	64,949	60,428
Rent	28	**40,836**	37,936	31,759
Freight, trucking and handling		**5,863**	9,328	25,186
Insurance		**2,699**	5,796	6,668
Others		**25,244**	18,262	14,362
		P15,624,652	P13,886,765	P12,181,764

21. Selling and Marketing Expenses

Selling and marketing expenses consist of:

	Note	**2017**	2016	2015
Advertising and promotions		**P1,083,255**	P877,756	P802,064
Delivery and marketing		**518,553**	522,558	493,705
Personnel	24, 29	**249,733**	214,864	206,860
Outside services		**66,147**	68,330	88,467
Utilities and supplies		**40,474**	35,557	39,905
Repairs and maintenance		**38,924**	33,955	37,391
Rent	28	**37,526**	46,893	69,737
Travel and transportation		**35,467**	31,468	27,178
Depreciation and amortization	12, 23	**30,492**	42,903	40,886
Corporate special program		**21,954**	38,909	24,943
Others		**10,189**	10,888	11,572
		P2,132,714	P1,924,081	P1,842,708

22. General and Administrative Expenses

General and administrative expenses consist of:

	Note	**2017**	2016	2015
Personnel	*24, 29*	**P747,134**	P712,157	P629,955
Outside services	*27*	**280,843**	248,981	273,961
Depreciation and amortization	*12, 14, 23*	**277,441**	288,854	289,791
Taxes and licenses		**136,048**	155,103	184,596
Repairs and maintenance		**92,685**	90,191	75,412
Insurance		**59,405**	71,388	82,499
Provision for impairment losses	*8, 14*	**44,653**	138,300	184,052
Utilities and supplies		**42,545**	37,803	34,974
Rent	*28*	**39,723**	5,713	40,440
Research		**36,665**	30,792	33,142
Corporate special program		**33,860**	31,890	35,274
Travel and transportation		**28,524**	27,832	22,639
Others		**8,175**	5,903	6,228
		P1,827,701	P1,844,907	P1,892,963

23. Depreciation and Amortization

Depreciation and amortization from continuing operations consist of:

	Note	**2017**	2016	2015
Property, plant and equipment	*12*	**P572,452**	P581,360	P567,609
Deferred containers	*14*	**41,938**	42,121	58,153
Intangible assets	*14*	**16,465**	14,642	7,293
		P630,855	P638,123	P633,055

Depreciation and amortization from continuing operations are distributed as follows:

	Note	**2017**	2016	2015
Cost of sales	*20*	**P322,922**	P306,366	P302,378
Selling and marketing expenses	*21*	**30,492**	42,903	40,886
General and administrative expenses	*22*	**277,441**	288,854	289,791
		P630,855	P638,123	P633,055

24. Personnel Expenses

Personnel expenses from continuing operations consist of:

	Note	**2017**	2016	2015
Salaries and wages		**P751,361**	P741,991	P664,133
Other employee benefits		**389,249**	306,628	272,697
Retirement costs - net	*29*	**91,292**	64,423	56,236
		P1,231,902	P1,113,042	P993,066

Personnel expenses from continuing operations are distributed as follows:

	Note	**2017**	2016	2015
Cost of sales	*20*	**P235,035**	P186,021	P156,251
Selling and marketing expenses	*21*	**249,733**	214,864	206,860
General and administrative expenses	*22, 27*	**747,134**	712,157	629,955
		P1,231,902	P1,113,042	P993,066

25. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	**2017**	2016	2015
Interest on notes payable	*15*	**P235,240**	P346,443	P423,187
Interest on long-term debt	*17*	**5,616**	11,257	17,207
Other financing charges		**36,114**	42,901	48,236
Capitalized borrowing costs	*12*	**(1,455)**	(4,847)	(2,471)
		P275,515	P395,754	P486,159

26. Other Income (Charges)

Other income (charges) consist of:

	Note	**2017**	2016	2015
Tolling fees		**P62,363**	P31,918	P24,942
Sale of scrap materials		**26,030**	30,193	24,742
Rent income	*28*	**240**	1,394	4,733
Net unrealized foreign exchange gain (loss)		**(215)**	752	(2,081)
Provision for impairment losses	*13*	**-**	-	(100,000)
Net derivative loss	*33*	**(7,946)**	(6,111)	(702)
Others		**565**	2,212	(2,519)
		P81,037	P60,358	(P50,885)

Tolling fees are net of cost amounting to P43,216, P28,795 and P19,324 in 2017, 2016 and 2015, respectively.

27. Related Party Disclosures

The Group, certain subsidiaries, joint ventures and entities under common control 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 of December 31:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	**2017**	**P6,554**	**P235,725**	**P4,435**	**P37,087**	On demand;	Unsecured; no
	2016	6,479	229,512	3,291	46,805	non-interest	impairment
	2015	8,246	264,803	4,905	40,031	bearing	
Under Common	**2017**	**228,178**	**3,822,255**	**169,778**	**646,770**	On demand;	Unsecured; no
Control	2016	265,039	3,385,938	197,950	556,180	non-interest	impairment
	2015	576,005	3,422,989	233,585	489,021	bearing	
Joint Venture	**2017**	**-**	**-**	**688,026**	**94,059**	On demand;	Unsecured; no
	2016	-	-	637,544	230	interest	impairment
	2015	-	-	663,941	-	bearing	
Retirement Plan	**2017**	**-**	**-**	**-**	**-**	On demand;	Unsecured; no
	2016	-	-	-	28,525	non-interest	impairment
	2015	-	-	-	-	bearing	
Associates	**2017**	**-**	**-**	**-**	**2,504,900**	3 months;	Unsecured
of the Parent	2016	-	-	-	2,684,800	Interest	
Company	2015	-	-	-	887,200	bearing	
Total	**2017**	**P234,732**	**P4,057,980**	**P862,239**	**P3,282,816**		
Total	2016	P271,518	P3,615,450	P838,785	P3,316,540		
Total	2015	P584,251	P3,687,792	P902,431	P1,416,252		

a. The Group, in the normal course of business, has significant transactions with related parties pertaining to purchases of containers and other packaging materials and sale of liquor and by-products. The sales to and purchases from related parties are made at normal market prices. There have been no guarantees provided or received for any amounts owed by and owed to related parties.

b. The Group has entered into various lease agreements with related parties as a lessor and lessee (Note 28).

c. Management fees paid to Parent Company amounting to P179,525, P167,940 and P189,343 in 2017, 2016 and 2015, respectively, are included in "Outside services" account under "General and administrative expenses" (Note 22).

d. Security deposits with related parties under common control amounted to P978 as of December 31, 2017 and 2016, included as part of "Noncurrent receivables and deposits - net" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 14).

e. TSML executed various promissory notes in favor of the Company. The details of which are as follows:

   - Principal sum of THB250,000 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
   - Principal sum of THB50,000 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
   - Principal sum of THB25,000 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
   - Principal sum of THB75,000 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
   - Principal sum of THB75,000 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 the Company and the stipulated interest shall be payable every three months.

   TSML made partial payments on the promissory notes amounting to THB 40,000 in 2017.

   The receivables from TSML are included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 8).

   Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to P21,785, P21,220 and P26,650 in 2017, 2016 and 2015, respectively.

f. Amounts owed to Bank of Commerce are included in "Notes payable" account in the consolidated statements of financial position (Note 15).

g. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2017**	2016	2015
Short-term employee benefits		**P56,264**	P47,728	P43,401
Retirement costs	29	**11,660**	8,272	6,540
		P67,924	P56,000	P49,941

28. Leasing Agreements

Operating Leases

Group as Lessor

a. The Company had a lease agreement with a related party for the lease of land in Cabuyao, Laguna for a period of three years from February 1, 2013 to January 31, 2016. Rental fee amounted to P194 per month. The agreement was not renewed thereafter.

b. The Company also had another lease agreement with a related party for the lease of land in Sta. Barbara, Pangasinan for a period of three years from July 1, 2013 to June 30, 2016. Rental fee amounted to P200 per month. The agreement was not renewed thereafter.

c. The Company had a lease agreement with a third party for the lease of equipment in Cabuyao, Laguna for a period of eight months from February 1, 2017 to September 30, 2017. Rental fee amounted to P30 per month. The agreement was not renewed thereafter.

Rent income recognized in the consolidated statements of income amounted to P240, P1,394 and P4,733 in 2017, 2016 and 2015, respectively (Note 26).

Group as Lessee

a. The Group leases various warehouse facilities under operating leases. These leases typically run for a period of one year. The Company has the option to renew the lease after the expiration of the lease term.

b. EPSBPI has various lease agreements with related parties for the lease of parcels of land located in Ligao City, Albay and Cauayan, Isabela for a period ranging from five to ten years and renewable upon mutual agreement of both parties. Rental fees are payable monthly and subject to 5% escalation every year.

c. In 2011, EPSBPI entered into lease agreements to use various equipment for a period of three years with the option to renew after expiration of the lease term. Rental fees are payable on a monthly basis. In 2016, the lease agreements were extended for periods ranging from nine months to two years.

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Within one year	**P3,778**	P3,611
After one year but not more than five years	**295**	3,809
	P4,073	P7,420

Rent expense is recognized on the following items in the consolidated statement of income:

	Note	**2017**	2016	2015
Cost of sales	20	**P40,836**	P37,936	P34,489
Selling and marketing expenses	21	**37,526**	46,893	70,173
General and administrative expenses	22	**39,723**	5,713	40,440
		P118,085	P90,542	P145,102

29. Retirement Plans

The Company and DBI have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Group pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2017. Valuations are obtained on a periodic basis.

The Retirement Plans are registered with the Bureau of Internal Revenue (BIR) as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. One of the members of the Board of Trustees of the Group's Retirement Plan who exercises voting rights over the shares and approve material transactions is an employee and officer of the Group. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Group.

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 Retirement Obligation		Net Defined Benefit Retirement Liability	
	2017	2016	**2017**	2016	**2017**	2016
Balance at beginning of year	**P587,662**	P494,971	**(P1,019,640)**	(P856,200)	**(P431,978)**	(P361,229)
Recognized in profit or loss						
Service costs	**-**	-	**(66,400)**	(47,350)	**(66,400)**	(47,350)
Interest expense	**-**	-	**(52,962)**	(44,303)	**(52,962)**	(44,303)
Interest income	**28,070**	27,230	**-**	-	**28,070**	27,230
	28,070	27,230	**(119,362)**	(91,653)	**(91,292)**	(64,423)
Recognized in other comprehensive income						
Remeasurements						
Actuarial gains (losses) arising from:						
Experience adjustments	**-**	-	**(382,720)**	(106,855)	**(382,720)**	(106,855)
Changes in financial assumptions	**-**	-	**79,515**	122	**79,515**	122
Changes in demographic assumptions	**-**	-	**4,026**	5,434	**4,026**	5,434
Return on plan assets excluding interest income	**176,352**	(1,269)	**-**	-	**176,352**	(1,269)
	176,352	(1,269)	**(299,179)**	(101,299)	**(122,827)**	(102,568)
Others						
Contributions	**109,126**	96,242	**-**	-	**109,126**	96,242
Benefits paid	**(200,261)**	(29,512)	**200,261**	29,512	**-**	-
	(91,135)	66,730	**200,261**	29,512	**109,126**	96,242
Balance at end of year	**P700,949**	P587,662	**(P1,237,920)**	(P1,019,640)	**(P536,971)**	(P431,978)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs recognized in the consolidated statements of income by GSMI amounted to P84,612, P59,197 and P52,143 in 2017, 2016 and 2015, respectively, while those charged by DBI amounted to P6,680, P5,226 and P4,683 in 2017, 2016 and 2015, respectively (Note 24).

The retirement costs are recognized in the following line items:

	Note	**2017**	2016	2015
Cost of sales	20	**P11,066**	P9,487	P8,048
Selling and marketing expenses	21	**12,415**	11,163	10,987
General and administrative expenses	22	**67,810**	43,773	37,791
		P91,291	P64,423	P56,826

Retirement liabilities recognized by GSMI amounted to P507,638 and P410,844 as of December 31, 2017 and 2016, respectively, while those recognized by DBI amounted to P29,332 and P21,134 as of December 31, 2017 and 2016, respectively.

The carrying amounts of the Group's retirement plan approximate fair values as of December 31, 2017 and 2016.

The Group's plan assets consist of the following:

	In Percentages	
	2017	2016
Investments in marketable securities	**52.96**	29.63
Investments in pooled funds:		
Fixed income portfolio	**25.76**	40.27
Stock trading portfolio	**21.04**	25.23
Others	**0.24**	4.87
	100.00	100.00

Investments in Marketable Securities

The plan assets include 13,843,321 common shares of the Company with fair market value per share of P26.85 and P12.70 as of December 31, 2017 and 2016, respectively.

The fair market value per share of the above marketable securities 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 P195,877 and P2,792 in 2017 and 2016, respectively.

There was no dividend income recognized in 2017 and 2016.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 9.85% and 8.32% 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, 2017 and 2016, respectively.

Approximately 7.39% and 10.81% 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, 2017 and 2016, respectively.

Others

Others include the Retirement Plans' cash and cash equivalents and receivables which earn interest.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plans before they become due. For this reason, the amount and timing of contributions to the Retirement Plans are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Plans are insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Plans.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P139,731 to the Retirement Plans in 2018.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) to the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2017	2016
Discount rate	**5.93 - 5.97**	4.84 - 5.23
Salary increase rate	**7.00**	7.00

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 is 11.8 years and 2.15 years as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2017		2016	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P119,073)**	**P138,782**	(P9,434)	P10,176
Salary increase rate	**125,070**	**(110,027)**	8,389	(7,956)

In 2017 and 2016, the Group's transaction relating to the Retirement Plans pertain to the contributions for the period. The outstanding payables of the Group to Ginebra San Miguel, Inc. Retirement Plan (GSMIRP) amounted to P28,525 as of December 31, 2016.

30. Basic and Diluted Earnings (Loss) Per Share

Basic and Diluted Earnings (Loss) Per Share is computed as follows:

	2017	2016	2015		
	Continuing Operations	Continuing Operations	Continuing Operations	Discontinued Operation	Total
Net income (loss)	**P602,243**	P361,385	(P364,069)	(P21,527)	(P385,596)
Less: Dividends on preferred shares	**49,180**	49,180	49,180	-	49,180
Net income (loss) available to common shares (a)	**P553,063**	P312,205	(P413,249)	(P21,527)	(P434,776)
Weighted average number of common shares outstanding (in thousands) - basic and diluted (b)	**286,328**	286,328	286,328	286,328	286,328
Basic and Diluted Earnings (Loss) Per Share (a/b)	**P1.93**	P1.09	(P1.44)	(P0.08)	(P1.52)

31. Share-Based Transactions

ESPP

Under the ESPP, 3,000,000 shares (inclusive of stock dividends declared) of the Company's unissued shares have been reserved for the employees of the Company. All permanent Philippine-based employees of the Company, 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 the Company 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, 2017 and 2016.

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 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.

32. 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, 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, noncurrent receivables and deposits and accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

The BOD shall oversee that a sound enterprise risk management framework is in place to effectively identify, monitor, assess and manage key business risks, which will guide the BOD in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

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 and Risk Oversight Committee (the "Committee") to, among others, enhance its oversight capability over the Group's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations; and be responsible for the oversight of the Group's enterprise risk management system to ensure its functionality and effectiveness.

The Committee also has the responsibility to assist the BOD in ensuring that there is an effective and integrated risk management process in place to guide the BOD in arriving at well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. In relation to this, the Committee has the following duties and responsibilities, among others: a.) develop a formal enterprise risk management plan which contains common language or register of risks, well-defined risk management goals, objectives and oversight, uniform processes of assessing risks and developing strategies to manage prioritized risks, designing and implementing risk management strategies, and continuing assessments to improve risk strategies, processes and measures; b.) oversee the implementation of the enterprise risk management plan; c.) evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness; d.) advise the BOD on its risk appetite levels and risk tolerance limits; and e.) review at least annually the Group's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Group.

The Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Committee.

Interest Rate Risk

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

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

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 sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,745, P2,913 and P9,284 in 2017, 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2017	**<1 Year**	**1 - 2 Years**	**>2 - 3 Years**	**>3 - 4 Years**	**>4 - 5 Years**	**Total**
Floating Rate						
Philippine peso-denominated	**P114,285**	**P -**	**P -**	**P -**	**P -**	**P114,285**
Interest rate	PDST-R2 margin or BSP overnight rate, whichever is higher					
	P114,285	**P -**	**P -**	**P -**	**P -**	**P114,285**

December 31, 2016	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Floating Rate						
Philippine peso-denominated	P114,286	P114,285	P -	P -	P -	P228,571
Interest rate	PDST-R2 margin or BSP overnight rate, whichever is higher	PDST-R2 margin or BSP overnight rate, whichever is higher				
	P114,286	P114,285	P -	P -	P -	P228,571

<u>Foreign Currency Risk</u>

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.

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

	December 31, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$228**	**P11,373**	US$384	P19,124
Trade and other receivables	**20**	**1,020**	243	12,075
Foreign currency-denominated monetary assets	**US$248**	**P12,393**	US$627	P31,199

The Group reported net gains (loss) on foreign exchange from continuing and discontinued operations amounting to (P215), P752, and (P2,081) in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets (Notes 6 and 26). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2017	**49.93**
December 31, 2016	49.72
December 31, 2015	47.06

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 table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's equity:

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P228)**	**(P160)**	**P228**	**P160**
Trade and other receivables	**(20)**	**(14)**	**20**	**14**
	(P248)	**(P174)**	**P248**	**P174**

December 31, 2016	P1 Decrease in the US Dollar Exchange Rate Effect on Income before Income Tax	Effect on Equity	P1 Increase in the US Dollar Exchange Rate Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P384)	(P269)	P384	P269
Trade and other receivables	(243)	(170)	243	170
	(P627)	(P439)	P627	P439

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 and managing inventory levels of common materials.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

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, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years
Financial Assets					
Cash and cash equivalents	P198,767	P198,767	P198,767	P -	P -
Trade and other receivables - net	1,714,662	1,714,662	1,714,662	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1,071	1,071	1,071	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	1,126	1,126	-	148	978
Financial Liabilities					
Notes payable	5,532,340	5,551,092	5,551,092	-	-
Accounts payable and accrued expenses (excluding derivative liabilities)	2,008,210	2,008,210	2,008,210	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	1,644	1,644	1,644	-	-
Long-term debt (including current maturities)	114,285	116,563	116,563	-	-

December 31, 2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years
Financial Assets					
Cash and cash equivalents	P777,305	P777,305	P777,305	P -	P -
Trade and other receivables - net	2,466,737	2,466,737	2,466,737	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	242	242	242	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	42,720	42,720	-	41,742	978
Financial Liabilities					
Notes payable	7,998,111	8,030,467	8,030,467	-	-
Accounts payable and accrued expenses (excluding derivative liabilities)	1,894,049	1,894,049	1,894,049	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,403	2,403	2,403	-	-
Long-term debt (including current maturities)	228,571	238,735	121,576	117,159	-

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. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

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

Trade and Other Receivables

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

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

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

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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	**2017**	2016
Cash and cash equivalents (excluding cash on hand)	*7*	**P196,427**	P775,353
Trade and other receivables - net	*8*	**1,714,662**	2,466,737
Derivative assets	*10*	**1,071**	242
Noncurrent receivables and deposits - net	*14*	**1,126**	42,720
		P1,913,286	P3,285,052

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

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

<u>Capital Management</u>
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 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 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 is not subject to externally imposed capital requirements.

33. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P198,767**	**198,767**	P777,305	P777,305
Trade and other receivables - net	**1,714,662**	**1,714,662**	2,466,737	2,466,737
Derivative assets (included under "Prepaid expenses and other current assets" account)	**1,071**	**1,071**	242	242
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**1,126**	**1,126**	42,720	42,720
Financial Liabilities				
Notes payable	**5,532,340**	**5,532,340**	7,998,111	7,998,111
Accounts payable and accrued expenses (excluding derivative liabilities)	**2,008,210**	**2,008,210**	1,894,049	1,894,049
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**1,644**	**1,644**	2,403	2,403
Long-term debt (including current maturities)	**114,285**	**114,285**	228,571	228,571

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 amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, the fair value is based on 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. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Notes Payable and Accounts Payable and Accrued Expenses. The carrying amount of notes payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 3.00% to 3.23% and 3.00% to 4.00% as of December 31, 2017 and 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of embedded derivative financial instruments are discussed below.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$6,251 and US$4,339 as of December 31, 2017 and 2016, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net fair value of these embedded currency forwards amounted to (P573) and (P2,161) as of December 31, 2017 and 2016, respectively.

The Group recognized marked-to-market losses from embedded derivatives amounting to P7,946 P6,111 and P702 in 2017, 2016 and 2015, respectively (Note 26).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2017	2016
Balance at beginning of year	**(P2,161)**	P302
Net change in fair value of non-accounting hedges	**(7,946)**	(6,111)
	(10,107)	(5,809)
Less fair value of settled instruments	**(9,534)**	(3,648)
Balance at end of year	**(P573)**	(P2,161)

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:

	December 31, 2017			December 31, 2016		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,071**	**P1,071**	P -	P242	P242
Financial Liabilities						
Derivative liabilities	**-**	**1,644**	**1,644**	-	2,403	2,403

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2017 and 2016. In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

34. Other Matters

a. *Commitments*

The outstanding purchase commitments of the Group amounted to US$80,564 (P4,022,565), US$70,357 (P3,498,168) and US$105,225 (P4,951,885) as of December 31, 2017, 2016 and 2015, respectively (Note 32).

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. No provision was recognized in 2017, 2016 and 2015.

- Tax Cases Pending with the Court of Tax Appeals (CTA)

1. *Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue*
   CTA Case Nos. 8953 and 8954 (Consolidated)
   Third Division

   These cases pertain GSMI's Claims for Refund with the BIR, in the amount of P581,708 in Case No. 8953, and P133,551 in Case No. 8954, or in the total amount of P715,259, 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 1 January 2013 up to 31 May 2013 in Case No. 8953, and from 8 January 2013 up to 31 March 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.

2. *Ginebra San Miguel Inc. 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 P26,243, 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.

- Intellectual Property Cases Pending with the Supreme Court (SC)

1. *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.

2. *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.) Notice of 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.

3. *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. *Foreign Exchange Rates*

The foreign exchange rates used in translating the Thai Baht accounts of foreign joint ventures to Philippine peso were closing rates of P1.53 and P1.39 in 2017 and 2016, respectively, for consolidated statements of financial position accounts; and average rates of P1.54, P1.39, and P1.33 in 2017, 2016 and 2015, respectively, for income and expense accounts.

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

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