# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended

   Jun 30, 2016

2. SEC Identification Number

   142312

3. BIR Tax Identification No.

   000-083-856-000

4. Exact name of issuer as specified in its charter

   GINEBRA SAN MIGUEL INC.

5. Province, country or other jurisdiction of incorporation or organization

   PHILIPPINES

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   3rd and 6th Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City, Philippines
   Postal Code
   1550

8. Issuer's telephone number, including area code

   (+632) 841-5100

9. Former name or former address, and former fiscal year, if changed since last report

   N.A.

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| COMMON SHARES | 286,327,841 |
| PREFERRED SHARES | 32,786,885 |

11. Are any or all of registrant's securities listed on a Stock Exchange?

   ☑ Yes ☐ No

   If yes, state the name of such stock exchange and the classes of securities listed therein:

   THE PHILIPPINE STOCK EXCHANGE, INC. - Common

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No



# Ginebra San Miguel, Inc.
# GSMI

## PSE Disclosure Form 17-2 - Quarterly Report
***References: SRC Rule 17 and***
***Sections 17.2 and 17.8 of the Revised Disclosure Rules***

| | |
|---|---|
| **For the period ended** | Jun 30, 2016 |
| **Currency (indicate units, if applicable)** | Php (in thousand) |

**Balance Sheet**

| | Period Ended | Fiscal Year Ended (Audited) |
|---|---|---|
| | Jun 30, 2016 | Dec 31, 2015 |
| **Current Assets** | 8,042,155 | 7,927,522 |
| **Total Assets** | 15,643,814 | 15,753,390 |
| **Current Liabilities** | 10,854,560 | 11,059,863 |
| **Total Liabilities** | 11,387,817 | 11,649,663 |
| **Retained Earnings/(Deficit)** | 4,315,779 | 4,177,762 |
| **Stockholders' Equity** | 4,255,997 | 4,103,727 |
| **Stockholders' Equity - Parent** | 4,028,514 | 3,942,036 |
| **Book Value per Share** | 13.34 | 12.86 |

**Income Statement**

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|---|---|---|---|
| **Operating Revenue** | 4,480,360 | 3,785,406 | 8,414,257 | 7,379,481 |
| **Other Revenue** | 28,122 | 9,700 | 41,109 | 26,700 |
| **Gross Revenue** | 4,508,482 | 3,795,106 | 8,455,366 | 7,406,181 |
| **Operating Expense** | 4,270,316 | 3,648,596 | 8,029,057 | 7,093,644 |
| **Other Expense** | 106,314 | 130,911 | 212,014 | 266,773 |
| **Gross Expense** | 4,376,630 | 3,779,507 | 8,241,071 | 7,360,417 |
| **Net Income/(Loss) Before Tax** | 131,852 | 15,599 | 214,295 | 45,764 |
| **Income Tax Expense** | 48,153 | 10,901 | 76,278 | 24,098 |
| **Net Income/(Loss) After Tax** | 83,699 | 4,698 | 138,017 | 21,666 |
| **Net Income Attributable to Parent Equity Holder** | 50,387 | -6,241 | 86,479 | -20,578 |
| **Earnings/(Loss) Per Share (Basic)** | 0.25 | 0.07 | 0.4 | -0.07 |
| **Earnings/(Loss) Per Share (Diluted)** | 0.25 | -0.03 | 0.4 | -0.01 |

| Other Relevant Information |
|---|
| Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended June 30, 2016. |

**Filed on behalf by:**

| | |
|---|---|
| **Name** | Conchita Jamora |
| **Designation** | General Counsel and Assistant Corporate Secretary |

108112016004823

# SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

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Company Information

| | |
|---|---|
| SEC Registration No. | 0000142312 |
| Company Name | GINEBRA SAN MIGUEL, INC. |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
|---|---|
| Document ID | 108112016004823 |
| Document Type | 17-Q (FORM 11-Q:QUARTERLY REPORT/FS) |
| Document Code | 17-Q |
| Period Covered | June 30, 2016 |
| No. of Days Late | 0 |
| Department | CFD |
| Remarks | |

# COVER SHEET

1 4 2 3 1 2

S. E. C. Registration Number

G I N E B R A S A N M I G U E L

I N C . A N D

S U B S I D I A R I E S

(Company's Full Name)

3rd and 6th Floors, San

Miguel Properties

Centre, St. Francis

Street, Ortigas

Center, Mandaluyong

City

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

| Cynthia M. Baroy | (632) 841-5100 |
|---|---|
| Contact Person | Company Telephone Number |

| 1 2 | 3 1 | SEC FORM 17-Q (2nd Qtr 2016) | | |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |
| | | | Annual Meeting | |

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-Q**
**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **June 30, 2016**

2. Commission identification number **142312** 3. BIR Tax Identification No. **000-083-856**

3. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL INC.**

**PHILIPPINES**

5. Province, country or other jurisdiction of incorporation or organization:

6. Industry Classification Code: [ ] (SEC use only)

**3RD and 6TH FLOORS, SAN MIGUEL PROPERTIES CENTRE,**
**ST. FRANCIS STREET, ORTIGAS CENTER**
**MANDALUYONG CITY** **1550**

7. Address of issuer's principal office Postal Code

**(632) 841-5100**

8. Issuer's telephone number, including area code

**N.A.**

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| | Outstanding Capital Stock and Amount of Debt Outstanding as of June 30, 2016 |
|---|---|
| **COMMON SHARES** | **286,327,841** |
| **PREFERRED SHARES** | **32,786,885** |
| | **319,114,726** |
| **TOTAL LIABILITIES** | **Php 11,387,816,757** |

11. Are any or all of the securities listed on a Stock Exchange?

Yes [ / ] No [ ]

If yes, state name of such Stock Exchange and the class/es of securities listed therein.

**THE PHILIPPINE STOCK EXCHANGE, INC.** - **Common**

12 Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements.**

The unaudited consolidated financial statements of Ginebra San Miguel, Inc. and its subsidiaries as of and for the period ended June 30, 2016 (with comparative figures as of December 31, 2015 and for the period ended June 30, 2015) and Selected Notes to the Consolidated Financial Statements are attached hereto as **Annex "A"**.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as **Annex "B"**.

## PART II – OTHER INFORMATION

Ginebra San Miguel, Inc. may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

**NONE**

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **GINEBRA SAN MIGUEL INC.**

Signature and Title **Cynthia M. Baroy**
Chief Finance Officer

Date **August 11, 2016**

## GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
### JUNE 30, 2016 AND DECEMBER 31, 2015
(Amounts in Thousands)

| | Note | 2016 Unaudited | 2015 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *7, 8* | P 237,962 | P 445,801 |
| Trade and other receivables - net | *5, 7, 8* | 2,592,681 | 2,802,212 |
| Inventories | | 3,500,396 | 3,090,271 |
| Prepaid expenses and other current assets | *7, 8* | 1,711,116 | 1,589,238 |
| **Total Current Assets** | | 8,042,155 | 7,927,522 |
| **Noncurrent Assets** | | | |
| Investments in joint ventures | | 541,046 | 524,850 |
| Property, plant and equipment - net | *4* | 5,366,476 | 5,574,827 |
| Goodwill | | 126,863 | 126,863 |
| Deferred tax assets | | 795,082 | 810,305 |
| Other noncurrent assets - net | *5, 7, 8* | 772,192 | 789,023 |
| **Total Noncurrent Assets** | | 7,601,659 | 7,825,868 |
| | | P 15,643,814 | P 15,753,390 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Notes payable | *7, 8* | P 8,607,061 | P 8,406,460 |
| Trade and other payables | *5, 7, 8* | 1,867,265 | 2,236,049 |
| Income and other taxes payable | | 265,948 | 303,068 |
| Current maturities of long-term debt - net of debt issue costs | *7, 8* | 114,286 | 114,286 |
| **Total Current Liabilities** | | 10,854,560 | 11,059,863 |
| **Noncurrent Liabilities** | | | |
| Retirement liabilities | | 361,829 | 361,229 |
| Long-term debt - net of current maturities and debt issue costs | *7, 8* | 171,428 | 228,571 |
| **Total Noncurrent Liabilities** | | 533,257 | 589,800 |
| **Total Liabilities** | | 11,387,817 | 11,649,663 |
| **Equity** | | | |
| Capital stock | | 399,063 | 399,063 |
| Additional paid-in capital | | 2,539,454 | 2,539,454 |
| Reserve for retirement plan | | (263,568) | (263,568) |
| Cumulative translation adjustments | | (64,758) | (79,011) |
| Retained earnings: | | | |
| Appropriated | | 2,500,000 | 2,500,000 |
| Unappropriated | | 1,815,779 | 1,677,762 |
| Treasury stock | | (2,669,973) | (2,669,973) |
| **Total Equity** | | 4,255,997 | 4,103,727 |
| | | P 15,643,814 | P 15,753,390 |

***Note : See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements***

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015**
(Amounts in Thousands, Except Per Share Data)

| | Note | 2016 Unaudited | 2015 Unaudited | *For the Quarters Ended* 2016 Unaudited | 2015 Unaudited |
|---|---|---|---|---|---|
| CONTINUING OPERATIONS | | | | | |
| SALES | *2* | **P 8,414,257** | P 7,379,481 | **P 4,480,360** | P 3,785,406 |
| COST OF SALES | | **6,231,153** | 5,291,833 | **3,379,714** | 2,718,450 |
| GROSS PROFIT | | **2,183,104** | 2,087,648 | **1,100,646** | 1,066,956 |
| SELLING AND MARKETING EXPENSES | | **(871,369)** | (897,769) | **(432,697)** | (441,974) |
| GENERAL AND ADMINISTRATIVE EXPENSES | | **(926,535)** | (904,042) | **(457,905)** | (488,172) |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | | **(212,014)** | (250,162) | **(106,314)** | (124,847) |
| EQUITY IN NET INCOME (LOSSES) OF JOINT VENTURES | | **1,944** | (16,611) | **12,570** | (6,064) |
| INTEREST INCOME | | **12,168** | 16,318 | **5,872** | 7,153 |
| OTHER INCOME - NET | | **26,997** | 10,382 | **9,680** | 2,547 |
| INCOME BEFORE INCOME TAX | | **214,295** | 45,764 | **131,852** | 15,599 |
| INCOME TAX EXPENSE | | **76,278** | 24,098 | **48,153** | 10,901 |
| NET INCOME FROM CONTINUING OPERATIONS | | **138,017** | 21,666 | **83,699** | 4,698 |
| DISCONTINUED OPERATIONS | | | | | |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS - NET OF TAX | 3 | **-** | (16,244) | **-** | 29,646 |
| NET INCOME | | **P 138,017** | P 5,422 | **P 83,699** | P 34,344 |
| Basic and diluted income (loss) per share | *6* | **P 0.40** | P (0.07) | **P 0.25** | P 0.07 |
| Basic and diluted income (loss) per share - continuing operations | *6* | **P 0.40** | P (0.01) | **P 0.25** | P (0.03) |

***Note : See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements***

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015**
(Amounts in Thousands)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | *For the Quarters Ended* | | |
| | | **2016** | | 2015 | | **2016** | | 2015 |
| | | **Unaudited** | | Unaudited | | **Unaudited** | | Unaudited |
| NET INCOME | **P** | **138,017** | P | 5,422 | **P** | **83,699** | P | 34,344 |
| SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF JOINT VENTURES WHICH WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | **14,253** | | (10,935) | | **13,841** | | (17,432) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | **14,253** | | (10,935) | | **13,841** | | (17,432) |
| TOTAL COMPREHENSIVE INCOME (LOSS) - NET OF TAX | **P** | **152,270** | P | (5,513) | **P** | **97,540** | P | 16,912 |

*Note : See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015**
(Amounts in Thousands)

| | Capital Stock | | Additional Paid-in | Reserve for Retirement | Cumulative Translation | Retained Earnings | | Treasury | |
|---|---|---|---|---|---|---|---|---|---|
| | Common | Preferred | Capital | Plan | Adjustments | Appropriated | Unappropriated | Stock | Total |
| **As of January 1, 2016 (Audited)** | **P 345,625** | **P 53,438** | **P 2,539,454** | **P (263,568)** | **P (79,011)** | **P 2,500,000** | **P 1,677,762** | **P (2,669,973)** | **P 4,103,727** |
| **Share in other comprehensive income of joint ventures** | - | - | - | - | **14,253** | - | - | - | **14,253** |
| **Net income for the period** | - | - | - | - | - | - | **138,017** | - | **138,017** |
| **Total comprehensive income for the period** | - | - | - | - | **14,253** | - | **138,017** | - | **152,270** |
| **As of June 30, 2016 (Unaudited)** | **P 345,625** | **P 53,438** | **P 2,539,454** | **P (263,568)** | **P (64,758)** | **P 2,500,000** | **P 1,815,779** | **P (2,669,973)** | **P 4,255,997** |
| As of January 1, 2015 (Audited) | P 345,625 | P 53,438 | P 2,539,454 | P (135,675) | P (54,040) | P 2,500,000 | P 2,063,358 | P (2,669,973) | P 4,642,187 |
| Share in other comprehensive loss of joint ventures | - | - | - | - | (10,935) | - | - | - | (10,935) |
| Net income for the period | - | - | - | - | - | - | 5,422 | - | 5,422 |
| Total comprehensive income (loss) for the period | - | - | - | - | (10,935) | - | 5,422 | - | (5,513) |
| As of June 30, 2015 (Unaudited) | P 345,625 | P 53,438 | P 2,539,454 | P (135,675) | P (64,975) | P 2,500,000 | P 2,068,780 | P (2,669,973) | P 4,636,674 |

***Note : See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements***

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015**
(Amounts in Thousands)

| | | 2016 Unaudited | | 2015 Unaudited |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (Loss) before income tax from: | | | | |
| Continuing operations | P | 214,295 | P | 45,764 |
| Discontinued operations | | - | | (23,205) |
| | | 214,295 | | 22,559 |
| Adjustments for: | | | | |
| Depreciation and amortization | | 319,639 | | 335,425 |
| Interest expense and other financing charges | | 212,014 | | 250,162 |
| Provision for impairment losses | | 73,184 | | 15,000 |
| Retirement expense | | 31,958 | | 31,437 |
| Net unrealized foreign exchange loss | | 717 | | 1,148 |
| Loss on Retirement of Fixed Assets | | 703 | | - |
| Net derivative loss | | 133 | | 761 |
| Gain on sale of property and equipment | | (190) | | (28,916) |
| Equity in net losses (income) of joint ventures | | (1,944) | | 16,611 |
| Interest income | | (12,168) | | (16,319) |
| Operating income before working capital changes | | 838,341 | | 627,868 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | 149,007 | | 93,787 |
| Inventories | | (422,739) | | (1,086,605) |
| Prepaid taxes and other current assets | | (169,240) | | 35,231 |
| Increase (decrease) in: | | | | |
| Trade and other payables | | (368,309) | | 188,143 |
| Other taxes payable | | (27,956) | | (103,937) |
| Cash used in operations | | (896) | | (245,513) |
| Interest received | | 12,417 | | 14,671 |
| Income taxes paid | | (20,020) | | (21,164) |
| Contribution to retirement plan | | (31,359) | | (30,500) |
| Net cash flows used in operating activities | | (39,858) | | (282,506) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | | (96,397) | | (65,466) |
| Decrease (Increase) in other non current assets | | 9 | | (246) |
| Proceeds from sale of property and equipment | | 285 | | 7,203 |
| Proceeds from sale of NAB Assets | | - | | 438,283 |
| Net cash flows provided by (used in) investing activities | | (96,103) | | 379,774 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Short-term borrowings | | 37,094,341 | | 42,861,319 |
| Collection of subscription receivables | | 502 | | 3,385 |
| Payments of: | | | | |
| Short-term borrowings | | (36,893,740) | | (42,989,565) |
| Long-term borrowings | | (57,143) | | (57,143) |
| Interest expense and other financing charges | | (215,909) | | (256,783) |
| Net cash flows used in financing activities | | (71,949) | | (438,787) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | 71 | | (309) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (207,839) | | (341,828) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 445,801 | | 579,917 |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | P | 237,962 | P | 238,089 |

*Note : See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**AGING OF ACCOUNTS RECEIVABLES**
**JUNE 30, 2016 (UNAUDITED)**
(Amounts in Thousands)

| TYPE OF ACCOUNTS RECEIVABLE | | TOTAL | Current | < 30 days past due | 30 - 60 days past due | 60 - 90 days past due | Over 90 days past due |
|---|---|---|---|---|---|---|---|
| a) **Trade Receivables** | P | 1,981,089 | 1,081,207 | 394,212 | 92,351 | 66,910 | 346,409 |
| Less: Allowance for Doubtful Accounts | | 233,746 | - | - | - | - | 233,746 |
| **Net Trade Receivables** | | **1,747,343** | **1,081,207** | **394,212** | **92,351** | **66,910** | **112,663** |
| b) **Non-Trade Receivables** | | 971,014 | 33,757 | 10,603 | 16,043 | 6,840 | 903,771 |
| Less: Allowance for Doubtful Accounts | | 125,676 | - | - | - | - | 125,676 |
| **Net Non-Trade Receivables** | | **845,338** | **33,757** | **10,603** | **16,043** | **6,840** | **778,095** |
| **NET RECEIVABLES** | **P** | **2,592,681** | **1,114,964** | **404,815** | **108,394** | **73,750** | **890,758** |

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(Amounts in Thousands, Except Per Share Data)**

## 1. Summary of Significant Accounting and Financial Reporting Policies

Ginebra San Miguel Inc. (GSMI) and its subsidiaries (collectively referred to as the "Group") prepared its interim consolidated financial statements as of and for the period ended June 30, 2016 and comparative financial statements for the same period in 2015 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest thousand (₱000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements.

Adoption of New and Amended Standards
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

*Amendments to Standards Adopted in 2016*

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11, Joint Arrangements)*. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets.

As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

  - Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations).* PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* to changes in methods of disposal that occur on or after January 1, 2016.

  - Disclosure of information "elsewhere in the interim financial report' *(Amendment to PAS 34).* PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time.

    The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8. The amendment is effective for annual periods beginning on or after January 1, 2016.

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

*New and Amended Standards Not Yet Adopted*

A number of new and amended standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- PFRS 9, *Financial Instruments (2014) replaces PAS 39, Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is 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 not permitted until the FRSC has adopted PFRS 15. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 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) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company'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.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sale of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11 or PAS 18 and the timing of revenue recognition. The SEC issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

- Disclosure initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes – e.g. by providing a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

- 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.

  On February 17, 2016, FRSC has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates)*. 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 thereof 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.

## 2. Segment Information

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 nonalcoholic beverages (NAB).

The alcoholic segment produces and markets alcoholic beverages.

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

Financial information about operating segments as of June 30, 2015 is as follows:

| | Alcoholic | Nonalcoholic | Consolidated |
|---|---|---|---|
| | 2015 | 2015 | 2015 |
| **REVENUES** | | | |
| Net Sales | P 7,307,981 | P 144,531 | P 7,452,512 |
| **RESULT** | | | |
| Segment Result * | 352,832 | (106,826) | 246,006 |

**Includes rental income and sale of scrap.*

No operating segment is determined for the year 2016.

## 3. Discontinued Operations

On December 5, 2014, the Board of Directors (BOD) of GSMI authorized the sale and transfer of certain NAB assets of the Company to San Miguel Brewery Inc. (SMB), a related party, consisting of property, plant and equipment as of December 31, 2014 and finished goods and other inventories as of March 31, 2015 ("Transaction"). As such, the Company reclassified the following NAB assets as held for sale as of December 31, 2014:

| | | 2014 |
|---|---|---|
| Property, plant and equipment - net | P | 193,941 |
| Finished goods and other inventories | | 353,765 |
| **Assets held for sale** | P | 547,706 |

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.

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 for 2015 are as follows:

| | | June 30, 2015 |
|---|---|---|
| Sales | P | 73,031 |
| Cost of sales | | 61,967 |
| Gross profit | | 11,064 |
| Selling and marketing expenses | | (65,176) |
| General and administrative expenses | | (11,593) |
| Other income - net | | 149 |
| Loss before income tax | | (65,556) |
| Income tax benefit | | (19,666) |
| Loss from discontinued operations | | (45,890) |
| Gain on disposal of assets - net of tax of P12,705 | | 29,646 |
| Net Loss | P | (16,244) |

## 4. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2016

| | January 1, 2016 | Additions | Disposals/ Retirements | Reclassifications | June 30, 2016 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Land and Land Improvements | P 761,245 | P | (1) P | 5,669 P | 766,913 |
| Buildings and Building Improvements | 1,863,657 | | (142) | 32,944 | 1,896,459 |
| Transportation Equipment | 222,694 | | (18,218) | 22,662 | 227,138 |
| Machinery and Equipment | 8,305,339 | | (2,228) | 80,316 | 8,383,427 |
| Furniture, Fixtures and Office Equipment | 918,580 | | (9,407) | 5,129 | 914,302 |
| Leasehold Improvements | 139,991 | | | 2,492 | 142,483 |
| Construction in Progress | 181,185 | 96,397 | | (161,301) | 116,281 |
| | P 12,392,691 P | 96,397 P | (29,996) P | (12,089) P | 12,447,003 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Land Improvements | P 181,237 P | 2,272 P | (1) P | - P | 183,508 |
| Buildings and Building Improvements | 907,955 | 31,137 | (97) | | 938,995 |
| Transportation Equipment | 196,141 | 9,125 | (18,123) | | 187,143 |
| Machinery and Equipment | 4,472,141 | 209,602 | (1,569) | (24) | 4,680,150 |
| Furniture, Fixtures and Office Equipment | 721,959 | 37,644 | (9,407) | (38) | 750,158 |
| Leasehold Improvements | 30,831 | 2,142 | | | 32,973 |
| | P 6,510,264 P | 291,922 P | (29,197) P | (62) P | 6,772,927 |
| **Accumulated Impairment Losses** | | | | | |
| Machinery and Equipment | P 307,600 P | - P | - P | - P | 307,600 |
| | P 307,600 P | - P | - P | - P | 307,600 |
| **Net Book Value** | P 5,574,827 P | (195,525) P | (799) P | (12,027) P | 5,366,476 |

June 30, 2015

| | January 1, 2015 | Additions | Disposals/ Retirements | Reclassifications | June 30, 2015 |
|---|---|---|---|---|---|
| Cost | | | | | |
| Land and Land Improvements | P 727,747 P | 11 P | - P | 1,778 P | 729,536 |
| Buildings and Building Improvements | 2,527,146 | - | (25,372) | 9,499 | 2,511,273 |
| Transportation Equipment | 212,907 | - | (3,262) | 4,816 | 214,461 |
| Machinery and Equipment | 8,562,185 | 122 | (5,018) | (180,380) | 8,376,909 |
| Furniture, Fixtures and Office Equipment | 129,744 | - | (14,582) | (903) | 114,259 |
| Other Equipment | 746,953 | 1,679 | (1,073) | 54,710 | 802,269 |
| Leasehold Improvements | 141,652 | - | - | 282 | 141,934 |
| Construction in Progress | 81,912 | 63,654 | - | (1,816) | 143,750 |
| | P 13,130,246 P | 65,466 P | (49,307) P | (112,014) P | 13,034,391 |
| Accumulated Depreciation and Amortization | | | | | |
| Land Improvements | P 177,069 P | 2,076 P | - P | 1 P | 179,146 |
| Buildings and Building Improvements | 895,091 | 27,188 | (21,115) | 631 | 901,795 |
| Transportation Equipment | 173,163 | 11,640 | (2,862) | 3,478 | 185,419 |
| Machinery and Equipment | 4,981,817 | 196,506 | (3,267) | (173,480) | 5,001,576 |
| Furniture, Fixtures and Office Equipment | 110,487 | 7,444 | (14,351) | (955) | 102,625 |
| Other Equipment | 522,921 | 37,343 | (501) | 19,282 | 579,045 |
| Leasehold Improvements | 25,272 | 2,642 | - | 277 | 28,191 |
| | P 6,885,820 P | 284,839 P | (42,096) P | (150,766) P | 6,977,797 |
| Accumulated Impairment Losses | | | | | |
| Machinery and Equipment | P 307,600 P | - P | - P | - P | 307,600 |
| | P 307,600 P | - P | - P | - P | 307,600 |
| Net Book Value | P 5,936,826 P | (219,373) P | (7,211) P | 38,752 P | 5,748,994 |

Depreciation and amortization charged to operations amounted to P291,922 and P284,839 for the periods ended June 30, 2016 and 2015, respectively.

## 5. Related Party Disclosures

The Group purchases products and services from and sells products to related parties. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of June 30, 2016 and December 31, 2015:

| | | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Parent Company | **June 30, 2016** | P **3,522** | P **99,837** | P **1,668** | P **59,259** | On demand; Non-interest bearing | Unsecured; No impairment |
| | December 31, 2015 | 8,246 | 264,803 | 4,905 | 40,031 | | |
| Under Common Control | **June 30, 2016** | **126,140** | **1,379,463** | **119,639** | **330,936** | On demand; Non-interest bearing | Unsecured; No impairment |
| | December 31, 2015 | 576,005 | 3,422,989 | 151,928 | 489,021 | | |
| Joint Venture | **June 30, 2016** | - | - | **650,774** | - | On demand; Non-interest bearing | Unsecured; No impairment |
| | December 31, 2015 | - | - | 663,941 | - | | |
| Associate of the Parent Company | **June 30, 2016** | - | - | - | **1,962,000** | 3 months; Interest bearing | Unsecured |
| | December 31, 2015 | - | - | - | 887,200 | | |
| | **June 30, 2016** | P **129,662** | P **1,479,300** | P **772,081** | P **2,352,195** | | |
| | December 31, 2015 | P 584,251 | P 3,687,792 | P 820,774 | P 1,416,252 | | |

a. Amounts owed by related parties consist of current and noncurrent receivables and deposits.

b. Amounts owed to related parties consist of trade payables and management fees.

c. The amounts owed to associate of the Parent Company include interest bearing loans to Bank of Commerce (BOC) presented as part of "Notes Payable" account in the consolidated statements of financial position.

## 6. Basic and Diluted Income (Loss) Per Share

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

| | June 30, 2016 | | |
|---|---|---|---|
| | Continuing | Discontinued | Total |
| Net income | P 138,017 | P - | P 138,017 |
| Less: Dividends on preferred shares for the period | 24,590 | - | 24,590 |
| Net income available to common shares (a) | 113,427 | - | 113,427 |
| Weighted average number of common shares outstanding (b) | 286,328 | - | 286,328 |
| Basic and Diluted Income Per Share (a/b) | P 0.40 | P - | P 0.40 |

| | June 30, 2015 | | |
|---|---|---|---|
| | Continuing | Discontinued | Total |
| Net income (loss) | P 21,666 | P (16,244) | P 5,422 |
| Less: Dividends on preferred shares for the period | 24,590 | - | 24,590 |
| Net income (loss) available to common shares (a) | (2,924) | (16,244) | (19,168) |
| Weighted average number of common shares outstanding (b) | 286,328 | 286,328 | 286,328 |
| Basic and Diluted Income (Loss) Per Share (a/b) | P (0.01) | P (0.06) | P (0.07) |

## 7. 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 trade and other payables arise directly from and are used to facilitate its daily operations.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the BOD on its activities.

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility on the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee reviews the financial reports required to be included in the annual report of the Group.

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

The accounting policies in relation to derivatives are set out in Note 8 to the selected notes to the consolidated financial statements.

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 P1,594 and P4,343 for the period ended June 30, 2016 and for the year ended December 31, 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:

| **June 30, 2016** | | **<1 year** | | **1-2 years** | | **>2-3 years** | | **>3-4 years** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Floating rate** | | | | | | | | | | |
| Philippine peso-denominated | P | 114,286 | P | 114,286 | P | 57,142 | | | P | 285,714 |
| Interest rate* | | PDST-R + margin or BSP overnight rate, whichever is higher | | PDST-R + margin or BSP overnight rate, whichever is higher | | PDST-R + margin or BSP overnight rate, whichever is higher | | | | |
| | P | 114,286 | P | 114,286 | P | 57,142 | P | - | P | 285,714 |

****Philippine Dealing & Exchange Corp. discontinued to publish PDST-F effective April 1, 2015.***

| December 31, 2015 | | <1 year | | 1-2 years | | >2-3 years | | >3-4 years | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Floating rate | | | | | | | | | | |
| Philippine peso-denominated | P | 114,286 | P | 114,286 | P | 114,285 | P | - | P | 342,857 |
| Interest rate | | PDST-F + margin or BSP overnight rate, whichever is higher | | PDST-F + margin or BSP overnight rate, whichever is higher | | PDST-F + margin or BSP overnight rate, whichever is higher | | | | |
| | P | 114,286 | P | 114,286 | P | 114,285 | P | - | P | 342,857 |

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

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

| | **June 30, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$160** | **P7,521** | US$193 | P9,102 |
| Trade and other receivables | **406** | **19,109** | 187 | 8,814 |
| Foreign currency-denominated monetary assets | **US$566** | **P26,630** | US$380 | P17,916 |

The Group reported net foreign exchange loss amounting to P717 and P1,148 for the periods ended June 30, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | **Philippine Peso to US Dollar** |
|---|---|
| December 31, 2014 | 44.720 |
| June 30, 2015 | 45.090 |
| December 31, 2015 | 47.060 |
| **June 30, 2016** | **47.060** |

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following 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 liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

| | **P1 Decrease in the US Dollar Exchange Rate** | | **P1 Increase in the US Dollar Exchange Rate** | |
|---|---|---|---|---|
| **June 30, 2016** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P160)** | **(P112)** | **P160** | **P112** |
| Trade and other receivables | **(406)** | **(284)** | **406** | **284** |
| | **(P566)** | **(P396)** | **P566** | **P396** |

| December 31, 2015 | P1 Decrease in the US Dollar Exchange Rate: Effect on Income before Income Tax | P1 Decrease in the US Dollar Exchange Rate: Effect on Equity | P1 Increase in the US Dollar Exchange Rate: Effect on Income before Income Tax | P1 Increase in the US Dollar Exchange Rate: Effect on Equity |
|---|---|---|---|---|
| Cash and cash equivalents | (P193) | (P135) | P193 | P135 |
| Trade and other receivables | (187) | (131) | 187 | 131 |
| | (P380) | (P266) | P380 | P266 |

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 San Miguel Corporation (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 under the 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 payments used for liquidity management.

| **June 30, 2016** | **Carrying Amount** | **Contractual Cash Flow** | **1 year or less** | **>1 year - 2 years** | **>2 years - 5 years** |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | **P237,962** | **P237,962** | **P237,962** | **P -** | **P -** |
| Trade and other receivables - net | **2,592,681** | **2,592,681** | **2,592,681** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **110** | **110** | **110** | **-** | **-** |
| Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account) | **189,352** | **189,352** | | **188,867** | **485** |
| **Financial Liabilities** | | | | | |
| Notes payable | **8,607,061** | **8,650,560** | **8,650,560** | **-** | **-** |
| Trade and other payables (excluding dividends payable) | **1,857,999** | **1,857,999** | **1,857,999** | **-** | **-** |
| Derivative liabilities (included under "Trade and other payables" account) | **4,012** | **4,012** | **4,012** | **-** | **-** |
| Long-term debt (including current maturities) | **285,714** | **301,526** | **124,149** | **119,514** | **57,863** |

| December 31, 2015 | Carrying Amount | Contractual Cash Flow | 1 year or less | >1 year - 2 years | >2 years - 5 years |
|---|---|---|---|---|---|
| Financial Assets | | | | | |
| Cash and cash equivalents | P 445,801 | P 445,801 | P 445,801 | - | - |
| Trade and other receivables - net | 2,802,212 | 2,802,212 | 2,802,212 | - | - |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | 430 | 430 | 430 | - | - |
| Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account) | 187,338 | 187,338 | - | 186,853 | 485 |
| Financial Liabilities | | | | | |
| Notes payable | 8,406,460 | 8,458,827 | 8,458,827 | - | - |
| Trade and other payables (excluding dividends payable) | 2,230,667 | 2,230,667 | 2,230,667 | - | - |
| Derivative liabilities (included under "Trade and other payables" account) | 128 | 128 | 128 | - | - |
| Long-term debt (including current maturities) | 342,857 | 365,317 | 126,483 | 121,813 | 117,022 |

Credit Risk

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

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

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.

| | **June 30, 2016** | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | **P237,962** | P445,801 |
| Trade and other receivables - net | **2,592,681** | 2,802,212 |
| Derivative assets | **110** | 430 |
| Noncurrent receivables and deposits | **189,352** | 187,338 |
| | **P3,020,105** | P3,435,781 |

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.

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock, cumulative translation adjustments and reserve for retirement plan are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The Group is not subject to externally-imposed capital requirements.

## 8. Financial Assets and Financial Liabilities

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

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

*'Day 1' Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in 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.

*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 value 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 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.

*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.

The Group has no financial assets classified as HTM investments and AFS financial assets as of June 30, 2016 and December 31, 2015.

*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.

*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 statement of income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as notes payable, trade and other payables and long-term debt are included under this category.

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

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

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

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

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

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

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

For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

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

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

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

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

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

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

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

| | **June 30, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P237,962** | **P237,962** | P 445,801 | P 445,801 |
| Trade and other receivables - net | **2,592,681** | **2,592,681** | 2,802,212 | 2,802,212 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **110** | **110** | 430 | 430 |
| Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account) | **189,352** | **189,352** | 187,338 | 187,338 |
| **Financial Liabilities** | | | | |
| Notes payable | **8,607,061** | **8,607,061** | 8,406,460 | 8,406,460 |
| Trade and other payables (excluding dividends payable) | **1,857,999** | **1,857,999** | 2,230,667 | 2,230,667 |
| Derivative liabilities (included under "Trade and other payables" account) | **4,012** | **4,012** | 128 | 128 |
| Long-term debt (including current maturities) | **285,714** | **285,714** | 342,857 | 342,857 |

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 Trade and Other Payables.* The carrying amount of notes payable and trade and other payables 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 2.4% to 4.6% and 2.5% to 4.3% as of December 31, 2015 and 2014, 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 profit or loss. Details are as follows:

*Embedded Currency Forwards*
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$6,026, US$2,475 and US$4,658 as of June 30 and March 31, 2016 and December 31, 2015, 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 P3,902, P2,347 and P302 as of June 30 and March 31, 2016 and December 31, 2015, respectively.

For the periods ended June 30 and March 31, 2016 and 2015, the Group recognized marked-to-market losses (gains) from embedded derivatives amounting to P133, (P6,393) and P1,969, respectively.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for 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 circumstance 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 purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The Group's derivative assets and derivative liabilities amounting to P110 and P4,012, respectively, as of June 30, 2016 and P430 and P128, respectively, as of December 31, 2015, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 9. Other Matters

(a) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

(b) There were no material changes in estimates of amounts reported in prior financial years.

(c) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

(d) There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

(e) There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

(f) The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

(g) There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of June 30, 2016.

(h) The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of June 30, 2016. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

(i) Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

# Annex "B"

# GINEBRA SAN MIGUEL INC.

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

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. ("the Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended June 30, 2016 (with comparative figures as of December 31, 2015 and for the period ended June 30, 2015). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2016, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

## I. FINANCIAL PERFORMANCE

### 2016 vs. 2015

The volume increase of key brands and price adjustment implemented in January 2016 resulted in a 14% revenue growth versus last year. Likewise, gross profit improved by 5% despite the 18% increase in cost of sales.

The 3% decrease in selling and marketing expenses resulted from lesser expenditure in advertising and promotions. On the other hand, general and administrative expenses increased by 2% due to rise in personnel cost, corporate special program, and taxes and licenses.

Interest expense, net of interest income, decreased by 15% because of lower debt while other income grew on account of higher sale of scraps and tolling income.

Thai San Miguel Liquor Co., Ltd.'s (TSML) posted net income on account of higher revenue and lower fixed operating expenses. Share in equity in net earnings of joint ventures amounted to P2 million in 2016 compared to (P17) million share in equity in net losses on June 30, 2015.

As a result, net income from continuing operations raised to P138 million compared to last year's P22 million. Moreover, the Parent Company will endeavor to implement its consumer-focused strategies to sustain full recovery and further strengthen its market position in the hard liquor industry.

### 2015 vs. 2014

The volume increase of key brands and price adjustment implemented in January 2015 resulted to 12% revenue growth versus same period last year. Similarly, gross profit also improved by 17% compared last year despite the 10% increase in cost of sales.

Additional spending for marketing programs increased selling and marketing expenses by 7%, while payment of various tax-related charges increased general and administrative expenses by 16%.

TSML posted lower losses resulting to a 60% decline in equity in net losses of joint ventures.

Furthermore, reclassification of interest income which was previously offset against interest expense and other financing charges resulted to an increase in interest income versus last year.

The after tax result of operations was a turnaround of P5 million net income as compared to previous year's net loss of P188 million.

Continuous implementation of programs focusing on core brands is expected to further promote consumer interest and off-take. This will be complemented by sustaining cost reduction programs and improvements in distribution. Thus, the Group is poised to deliver better full year bottom line results and further improve its overall financial position versus last year.

## II. FINANCIAL POSITION

### 2016 vs. 2015

Trade and other receivables decreased by 7% due to improved collection while the 13% increase in inventories represents the additional acquisition of input materials. Furthermore, prepaid expenses and other current assets increased by 8% while investments in joint ventures increased by 3% due to the share in equity in net earnings and share in other comprehensive income.

On the other hand, trade and other payables decreased by 17% mainly due to the payments made to external and internal suppliers. Settlement of long-term obligations also resulted in a 25% reduction in debt. However, notes payable increased by 2% to support the seasonal inventory build-up.

Income and other taxes payable decreased by 12% on account of lower withholding taxes while cumulative translation adjustments decreased by 18% due to the translation adjustments on TSML's net assets.

### 2015 vs. 2014

The cash position at the end of first quarter was lower by 59% due to settlement of debts and interest obligations.

The reduction of accounts receivable was a result of improved collection which translated to a 5% reduction in trade and other receivables.

Inventories grew by 42% due to higher production in anticipation of the seasonal increase in orders and higher sales demands.

Year-to-date net loss of joint venture, TSML, resulting from lower joint venture sales volumes, resulted in 4% decline in investment in joint ventures.

Trade and other payables increased by 8% due to additional purchase of materials and supplies.

Income and other taxes payable were reduced by 49% on account of higher input tax and higher Minimum Corporate Income Tax (MCIT) due to better operating results.

Long-term debt – net of current maturities reduced by 17%, due to payment of Parent Company's long-term debt.

### Equity

The increase (decrease) in equity for the period ended June 30, 2016 and 2015 is due to:

| | June 30 | |
|---|---|---|
| | **2016** | 2015 |
| | *(In Millions)* | |
| Net income for the period | **P138** | P5 |
| Share in other comprehensive income (loss) of joint ventures | **14** | (11) |
| | **P152** | (P6) |

## III. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

| | June 30 | |
|---|---|---|
| | **2016** | 2015 |
| | *(In Millions)* | |
| Net cash flows used in operating activities | **(P40)** | (P283) |
| Net cash flows provided by (used in) investing activities | **(96)** | 380 |
| Net cash flows used in financing activities | **(72)** | (439) |

Net cash flows used in operating activities consist of income before income tax for the period and the effect of changes in current assets and certain current liabilities, including net movement in inventory level.

Net cash flows provided by (used in) investing activities include the following:

| | June 30 | |
|---|---|---|
| | **2016** | 2015 |
| | *(In Millions)* | |
| Additions to property, plant and equipment | **(P96)** | (P65) |
| Proceeds from sale of property and equipment | - | 7 |
| Proceeds from sale of NAB assets | - | 438 |

Major components of net cash flows used in financing activities are as follows:

| | June 30 | |
|---|---|---|
| | **2016** | 2015 |
| | *(In Millions)* | |
| Proceeds from: | | |
| Short-term borrowings | **P37,094** | P42,861 |
| Collection of subscription receivables | **1** | 3 |
| Payments of: | | |
| Short-term borrowings | **(36,894)** | (42,990) |
| Long-term borrowings | **(57)** | (57) |
| Interest | **(216)** | (257) |

The effect of exchange rate changes on cash and cash equivalents amounted to P0.07 million and (P0.31) million for the periods ended June 30, 2016 and 2015, respectively.

# Annex "B"

## IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures used by the Group. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II, "Financial Performance" of the Management Discussion and Analysis (MD&A), for the discussion of certain computed Key Performance Indicators.

| KPI | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Liquidity: | | |
| **Current Ratio** | **0.74** | 0.72 |
| Solvency: | | |
| **Debt to Equity Ratio** | **2.68** | 2.84 |
| **Asset to Equity Ratio** | **3.68** | 3.84 |
| Profitability: | | |
| **Return on Average Equity** | **6%** | (9%) |
| **Interest Rate Coverage Ratio** | **3.69** | 2.61 |

| KPI | Period Ended June 30 | |
|---|---|---|
| | **2016** | 2015 |
| Operating Efficiency: | | |
| **Volume Growth** | **12%** | 4% |
| **Revenue Growth** | **15%** | 11% |
| **Operating Margin** | **5%** | 3% |

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

| KPI | Formula |
|---|---|
| **Current Ratio** | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| **Debt to Equity Ratio** | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$ |
| **Asset to Equity Ratio** | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$ |
| **Return on Average Equity** | $\frac{\text{Net Income*}}{\text{Average Equity}}$ |
| **Interest Rate Coverage Ratio** | $\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$ |
| **Volume Growth** | $\left(\frac{\text{Sum of All Businesses' Volume}}{\text{Prior Period Volume}}\right) - 1$ |
| **Revenue Growth** | $\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) - 1$ |
| **Operating Margin** | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$ |

**Annualized for quarterly reporting*