CR05949-2017

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, 2017

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, 2017
Currency (indicate units, if applicable)	Php (in thousands)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2017	Dec 31, 2016
Current Assets	7,699,102	7,774,943
Total Assets	14,718,615	15,161,942
Current Liabilities	9,490,369	10,184,942
Total Liabilities	9,980,277	10,731,205
Retained Earnings/(Deficit)	4,804,323	4,539,147
Stockholders' Equity	4,738,338	4,430,737
Stockholders' Equity - Parent	4,525,219	4,248,825
Book Value per Share	14.85	13.88

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	5,020,488	4,495,912	10,167,796	8,453,422
Gross Expense	4,816,090	4,364,060	9,767,485	8,239,127
Non-Operating Income	31,994	15,552	43,338	39,165
Non-Operating Expense	94,479	93,744	193,555	210,070
Income/(Loss) Before Tax	204,398	131,852	400,311	214,295
Income Tax Expense	68,628	48,153	135,135	76,278
Net Income/(Loss) After Tax	135,770	83,699	265,176	138,017
Net Income Attributable to Parent Equity Holder	145,385	50,387	276,395	86,479
Earnings/(Loss) Per Share (Basic)	0.43	0.25	0.84	0.4
Earnings/(Loss) Per Share (Diluted)	0.43	0.25	0.84	0.4

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	1.71	-0.88
Earnings/(Loss) Per Share (Diluted)	1.71	-0.88

Other Relevant Information
Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended June 30, 2017. Amounts in thousands pesos, except per share data.

Filed on behalf by:

Name	Conchita Jamora
Designation	General Counsel and Assistant Corporate Secretary

COVER SHEET

1	4	2	3	1	2

S. E. C. Registration Number

GINEBRA SAN MIGUEL INC.

(Company's Full Name)

3rd & 6th FLRS. SAN MIGUEL PROPERTIES CENTRE, ST. FRANCIS STREET, ORTIGAS CENTER, MANDALUYONG CITY

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

Cynthia M. Baroy
Contact Person

841-5100
Company Telephone Number

1 2
Month

3 1
Day

SEC Form 17-Q (2nd Qtr 2017)
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, 2017**

2. Commission identification number **142312**

3. BIR Tax Identification No. **000-083-856**

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

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

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

7. **3RD and 6TH FLOORS, SAN MIGUEL PROPERTIES CENTRE, ST. FRANCIS STREET, ORTIGAS CENTER MANDALUYONG CITY** — **1550**
   Address of issuer's principal office — Postal Code

8. **(632) 841-5100**
   Issuer's telephone number, including area code

9. **N.A.**
   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, 2017
COMMON SHARES	**286,327,841**
PREFERRED SHARES	**32,786,885**
	319,114,726
TOTAL LIABILITIES	**Php 9,980,277,402**

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, 2017 (with comparative figures as of December 31, 2016 and for the period ended June 30, 2016) 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, 2017**

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND DECEMBER 31, 2016
(In Thousands)

	Note		2017 Unaudited		2016 Audited
ASSETS					
Current Assets					
Cash and cash equivalents	*5, 6*	P	**196,437**	P	777,305
Trade and other receivables - net	*3, 5, 6*		**2,213,679**		2,466,737
Inventories			**3,723,291**		3,034,586
Prepaid expenses and other current assets	*5, 6*		**1,565,695**		1,496,315
Total Current Assets			**7,699,102**		7,774,943
Noncurrent Assets					
Investments in joint ventures			**466,639**		465,637
Property, plant and equipment - net	*2*		**5,138,318**		5,356,656
Goodwill			**126,863**		126,863
Deferred tax assets			**699,959**		821,094
Other noncurrent assets - net	*3, 5, 6*		**587,734**		616,749
Total Noncurrent Assets			**7,019,513**		7,386,999
		P	**14,718,615**	P	15,161,942
LIABILITIES AND EQUITY					
Current Liabilities					
Notes payable	*5, 6*	P	**7,153,085**	P	7,998,111
Trade and other payables	*3, 5, 6*		**2,063,614**		1,896,452
Income and other taxes payable			**159,385**		176,093
Current maturities of long-term debt - net of debt issue costs	*5,6*		**114,285**		114,286
Total Current Liabilities			**9,490,369**		10,184,942
Noncurrent Liabilities					
Retirement liabilities			**432,765**		431,978
Long-term debt - net of current maturities and debt issue costs	*5, 6*		**57,143**		114,285
Total Noncurrent Liabilities			**489,908**		546,263
Total Liabilities			**9,980,277**		10,731,205
Equity					
Capital stock			**399,063**		399,063
Additional paid-in capital			**2,539,454**		2,539,454
Equity reserves			**(334,529)**		(376,954)
Retained earnings:					
Appropriated			**2,500,000**		2,500,000
Unappropriated			**2,304,323**		2,039,147
Treasury stock			**(2,669,973)**		(2,669,973)
Total Equity			**4,738,338**		4,430,737
		P	**14,718,615**	P	15,161,942

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, 2017 AND 2016
(In Thousands, Except Per Share Data)

						For the Quarter Ended		
			2017		2016		**2017**		2016
	Note		**Unaudited**		Unaudited		**Unaudited**		Unaudited
SALES	*3*	**P**	**10,124,458**	P	8,414,257	**P**	**4,988,494**	P	4,480,360
COST OF SALES			**7,569,717**		6,231,153		**3,755,435**		3,379,714
GROSS PROFIT			**2,554,741**		2,183,104		**1,233,059**		1,100,646
SELLING AND MARKETING EXPENSES			**(1,073,961)**		(871,369)		**(475,863)**		(432,697)
GENERAL AND ADMINISTRATIVE EXPENSES			**(930,252)**		(926,535)		**(490,313)**		(457,905)
INTEREST EXPENSE AND OTHER FINANCING CHARGES			**(152,131)**		(212,014)		**(74,586)**		(106,314)
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES			**(41,424)**		1,944		**(19,893)**		12,570
INTEREST INCOME			**12,326**		12,168		**5,870**		5,872
OTHER INCOME - Net			**31,012**		26,997		**26,124**		9,680
INCOME BEFORE INCOME TAX			**400,311**		214,295		**204,398**		131,852
INCOME TAX EXPENSE			**135,135**		76,278		**68,628**		48,153
NET INCOME		**P**	**265,176**	P	138,017	**P**	**135,770**	P	83,699
Basic and diluted earnings per share	*4*	**P**	**0.84**	P	0.40	**P**	**0.43**	P	0.25

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, 2017 AND 2016
(In Thousands)

			For the Quarters Ended	
	2017	2016	**2017**	2016
	Unaudited	Unaudited	**Unaudited**	Unaudited
NET INCOME	**P 265,176**	P 138,017	**P 135,770**	P 83,699
SHARE IN OTHER COMPREHENSIVE INCOME OF JOINT VENTURES THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**42,425**	14,253	**10,475**	13,841
OTHER COMPREHENSIVE INCOME	**42,425**	14,253	**10,475**	13,841
TOTAL COMPREHENSIVE INCOME - Net of tax	**P 307,601**	P 152,270	**P 146,245**	P 97,540

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, 2017 AND 2016
(In Thousands)

	Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Adjustments	Retained Earnings		Treasury Stock	Total
	Common	Preferred				Appropriated	Unappropriated		
As of January 1, 2017 (Audited)	**P 345,625**	**P 53,438**	**P 2,539,454**	**P (335,365)**	**P (41,589)**	**P 2,500,000**	**P 2,039,147**	**P (2,669,973)**	**P 4,430,737**
Share in other comprehensive income of joint ventures	**-**	**-**	**-**	**-**	**42,425**	**-**	**-**	**-**	**42,425**
Net income	**-**	**-**	**-**	**-**	**-**	**-**	**265,176**	**-**	**265,176**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**42,425**	**-**	**265,176**	**-**	**307,601**
As of June 30, 2017 (Unaudited)	**P 345,625**	**P 53,438**	**P 2,539,454**	**P (335,365)**	**P 836**	**P 2,500,000**	**P 2,304,323**	**P (2,669,973)**	**P 4,738,338**
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	-	-	-	-	-	-	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

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, 2017 AND 2016
(In Thousands)

		2017		2016
		Unaudited		Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	**400,311**	P	214,295
Adjustments for:				
Depreciation and amortization		**313,240**		319,639
Interest expense and other financing charges		**152,131**		212,014
Equity in net losses (earnings) of joint ventures		**41,424**		(1,944)
Retirement expense		**41,646**		31,958
Net derivative loss		**12,510**		133
Provision for impairment losses		**712**		73,184
Net unrealized foreign exchange (gain) loss		**(318)**		717
Loss on retirement of fixed assets		**-**		703
Gain on sale of property, plant and equipment		**(73)**		(190)
Interest income		**(12,326)**		(12,168)
Operating income before working capital changes		**949,257**		838,341
Decrease (increase) in:				
Trade and other receivables		**252,563**		67,835
Inventories		**(692,404)**		(422,739)
Prepaid taxes and other current assets		**(84,802)**		(169,240)
Increase (decrease) in:				
Trade and other payables		**163,806**		(368,309)
Other taxes payable		**(9,728)**		(27,956)
Cash provided by (used in) operations		**578,692**		(82,068)
Interest received		**12,270**		12,417
Income taxes paid		**(3,530)**		(20,020)
Contribution to retirement plan		**(40,860)**		(31,359)
Net cash flows provided by (used in) operating activities		**546,572**		(121,030)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment		**(68,143)**		(96,397)
Decrease in other noncurrent assets		**-**		110,642
Proceeds from sale of property, plant and equipment		**82**		285
Net cash flows provided by (used in) in investing activities		**(68,061)**		14,530
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**34,291,888**		37,094,341
Collection of subscription receivables		**-**		502
Payments of:				
Short-term borrowings		**(35,136,914)**		(36,893,740)
Long-term borrowings		**(57,143)**		(57,143)
Interest expense and other financing charges		**(157,449)**		(215,909)
Net cash flows used in financing activities		**(1,059,618)**		(71,949)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**239**		71
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(580,868)**		(178,378)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**777,305**		445,801
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P	**196,437**	P	267,423

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

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2017 (UNAUDITED)
(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	1,492,292	872,886	270,729	68,037	17,458	263,182
Less: Allowance for doubtful accounts		246,050	-	-	-	-	246,050
Net Trade Receivables		**1,246,242**	**872,886**	**270,729**	**68,037**	**17,458**	**17,132**
b) **Non-trade receivables**		1,107,217	87,604	22,621	23,937	11,230	961,825
Less: Allowance for doubtful accounts		139,780	-	-	-	-	139,780
Net Non-trade receivables		**967,437**	**87,604**	**22,621**	**23,937**	**11,230**	**822,045**
NET RECEIVABLES	**P**	**2,213,679**	**960,490**	**293,350**	**91,974**	**28,688**	**839,177**

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, 2017 and comparative financial statements for the same period in 2016 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 2017

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

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows).* The amendments improve 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 statements of financial position for liabilities arising from financing activities. When the Group first applies the amendments, it is not required to provide comparative information for preceding periods.

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

- Annual Improvements to PFRS Cycles 2014-2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:

  - Clarification of the Scope of the Standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the 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 and interpretations on the respective effective dates:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:

  - Measuring an associate or joint venture at fair value *(Amendments to PAS 28, Investments in Associates).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at 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, with early adoption permitted. Potential impact is being assessed.

- *Applying* PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts (Amendments to PFRS 4).* The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39, *Financial Instruments: Recognition and Measurement*, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

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

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. Amendments can be applied retrospectively or prospectively. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

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

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

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

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

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

- IFRIC 23, *Uncertainty over Income Tax Treatments.* The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. When there is uncertainty over income tax treatments, this Interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (d) how an entity considers changes in facts and circumstances.

  On initial application, an entity shall apply this Interpretation either: (a) retrospectively applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the Interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this Interpretation.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

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

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

2. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2017 and December 31, 2016

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery & Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2016 (Audited)	P 761,245	P 1,863,657	P 222,694	P 8,305,339	P 918,580	P 139,991	P 181,185	P 12,392,691
Additions	-	148,855	-	-	-	-	233,070	381,925
Disposals/reclassifications	14,391	60,585	7,027	(19,813)	(38,840)	2,492	(322,374)	(296,532)
December 31, 2016 (Audited)	775,636	2,073,097	229,721	8,285,526	879,740	142,483	91,881	12,478,084
Additions	-	-	-	-	-	-	68,143	68,143
Disposals/reclassifications	6,067	13,959	(1,111)	21,793	(46,992)	6,037	(89,357)	(89,604)
June 30, 2017 (Unaudited)	**781,703**	**2,087,056**	**228,610**	**8,307,319**	**832,748**	**148,520**	**70,667**	**12,456,623**
Accumulated Depreciation								
January 1, 2016 (Audited)	P 181,237	P 907,955	P 196,141	P 4,472,141	P 721,959	P 30,831	P -	P 6,510,264
Depreciation and amortization	4,899	62,368	18,266	421,991	68,613	5,223	-	581,360
Disposals/reclassifications	7	(62)	(34,455)	(179,462)	(63,824)	-	-	(277,796)
December 31, 2016 (Audited)	186,143	970,261	179,952	4,714,670	726,748	36,054	-	6,813,828
Depreciation and amortization	3,013	38,450	8,731	211,409	20,092	2,287	-	283,982
Disposals/reclassifications	(46)	(4,254)	(2,630)	(25,222)	(54,964)	11	-	(87,105)
June 30, 2017 (Unaudited)	**189,110**	**1,004,457**	**186,053**	**4,900,857**	**691,876**	**38,352**	-	**7,010,705**
Accumulated Impairment Losses December 31, 2016 and June 30, 2017	-	-	-	**307,600**	-	-	-	**307,600**
Carrying Amount								
December 31, 2016 (Audited)	P 589,493	P 1,102,836	P 49,769	P 3,263,256	P 152,992	P 106,429	P 91,881	P 5,356,656
June 30, 2017 (Unaudited)	**P 592,593**	**P 1,082,599**	**P 42,557**	**P 3,098,862**	**P 140,872**	**P 110,168**	**P 70,667**	**P 5,138,318**

June 30, 2016

		Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery & Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2016 (Audited)	P	761,245 P	1,863,657 P	222,694 P	8,305,339 P	918,580 P	139,991 P	181,185 P	12,392,691
Additions		-	-	-	-	-	-	96,397	96,397
Disposals/reclassifications		5,668	32,802	4,444	78,088	(4,278)	2,492	(161,301)	(42,085)
June 30, 2016 (Unaudited)		**766,913**	**1,896,459**	**227,138**	**8,383,427**	**914,302**	**142,483**	**116,281**	**12,447,003**
Accumulated Depreciation									
January 1, 2016 (Audited)	P	181,237 P	907,955 P	196,141 P	4,472,141 P	721,959 P	30,831 P	- P	6,510,264
Depreciation and amortization		2,272	31,137	9,125	209,602	37,644	2,142	-	291,922
Disposals/reclassifications		(1)	(97)	(18,123)	(1,593)	(9,445)	-	-	(29,259)
June 30, 2016 (Unaudited)		**183,508**	**938,995**	**187,143**	**4,680,150**	**750,158**	**32,973**	-	**6,772,927**
Accumulated Impairment Losses									
June 30, 2016		-	-	-	**307,600**	-	-	-	**307,600**
Carrying Amount									
June 30, 2016 (Unaudited)	**P**	**583,405 P**	**957,464 P**	**39,995 P**	**3,395,677 P**	**164,144 P**	**109,510 P**	**116,281 P**	**5,366,476**

Depreciation charged to operations amounted to P283,982 and P291,922 for the periods ended June 30, 2017 and 2016, respectively.

3. 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. Amounts owed by/owed to related party are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of June 30, 2017 and December 31, 2016:

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	**June 30, 2017**	P **1,415**	P **114,697**	P **635**	P **2,277**	On demand;	Unsecured;
	December 31, 2016	6,479	229,512	3,291	46,805	Non-interest bearing	No impairment
Under Common Control	**June 30, 2017**	**75,918**	**1,851,626**	**191,245**	**457,265**	On demand;	Unsecured;
	December 31, 2016	265,039	3,385,938	197,950	556,180	Non-interest bearing	No impairment
Joint Venture	**June 30, 2017**	**11,046**	-	**630,641**	-	On demand;	Unsecured;
	December 31, 2016	21,211	-	637,544	230	Interest bearing	No impairment
Retirement Plan	**June 30, 2017**	-	-	-	**55,332**	On demand;	Unsecured;
	December 31, 2016	-	-	-	28,525	Non-interest bearing	No impairment
Associates of the Parent Company	**June 30, 2017**	-	-	-	**3,175,600**	3 months;	Unsecured;
	December 31, 2016	-	-	-	2,684,800	Interest bearing	No impairment
Total	**June 30, 2017**	P **88,379**	P **1,966,323**	P **822,521**	P **3,690,474**		
Total	December 31, 2016	P 292,729	P 3,615,450	P 838,785	P 3,316,540		

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 associates of the Parent Company include interest bearing loans to Bank of Commerce presented as part of "Notes Payable" account in the consolidated statements of financial position.

4. Basic and Diluted Earnings Per Share (EPS)

Basic and Diluted EPS is computed as follows:

	June 30, 2017	June 30, 2016
Net income	P **265,176**	P 138,017
Less: Dividends on preferred shares for the period	**24,590**	24,590
Net income available to common shares (a)	**240,586**	113,427
Weighted average number of common shares outstanding (b)	**286,328**	286,328
Basic and Diluted Earnings Per Share (a/b)	P **0.84**	P 0.40

5. 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 board of Board of Directors (BOD) has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

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

The BOD constituted the Audit and Risk Oversight 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 the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall also prepare the reports required to be included in the annual report of the Group.

The Audit and Risk Oversight 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 and Risk Oversight 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 and Risk Oversight Committee.

The accounting policies in relation to derivatives are set out in Note 6 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 P3,923 and P2,913 for the period ended June 30, 2017 and for the year ended December 31, 2016, 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, 2017	**<1 year**	**1-2 years**	**>2-3 years**	**>3-4 years**	**Total**
Floating rate					
Philippine peso-denominated	**P 114,285**	**P 57,143**			**P 171,428**
Interest rate	**PDST-F + margin or BSP overnight rate, whichever is higher**	**PDST-F + margin or BSP overnight rate, whichever is higher**			
	P 114,285	**P 57,143**	**P -**	**P -**	**P 171,428**

December 31, 2016	<1 year	1-2 years	>2-3 years	>3-4 years	Total
Floating rate					
Philippine peso-denominated	P 114,286	P 114,285			P 228,571
Interest rate	PDST-F + margin or BSP overnight rate, whichever is higher	PDST-F + margin or BSP overnight rate, whichever is higher			
	P 114,286	P 114,285	P -	P -	P 228,571

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, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$31**	**P1,587**	US$384	P19,124
Trade and other receivables	**137**	**6,932**	243	12,075
Foreign currency-denominated monetary assets	**US$168**	**P8,519**	US$627	P31,199

The Group reported net foreign exchange gain (loss) amounting to P318 and (P717) for the periods ended June 30, 2017 and 2016, 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:

	US Dollar to Philippine Peso
June 30, 2017	**50.47**
December 31, 2016	49.72
June 30, 2016	47.06
December 31, 2015	47.06

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
June 30, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P31)**	**(P22)**	**P31**	**P22**
Trade and other receivables	**(137)**	**(96)**	**137**	**96**
	(P168)	**(P118)**	**P168**	**P118**

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

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through 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, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P196,437**	**P196,437**	P 777,305	P 777,305
Trade and other receivables - net	**2,213,679**	**2,213,679**	2,466,737	2,466,737
Derivative assets (included under "Prepaid expenses and other current assets" account)	**24**	**24**	242	242
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	**42,720**	**42,720**	42,720	42,720
Financial Liabilities				
Notes payable	**7,153,085**	**7,153,085**	7,998,111	7,998,111
Trade and other payables (excluding dividends payable)	**2,047,291**	**2,047,291**	1,888,803	1,888,803
Derivative liabilities (included under "Trade and other payables" account)	**11,078**	**11,078**	2,403	2,403
Long-term debt (including current maturities)	**171,428**	**171,428**	228,571	228,571

December 31, 2016	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years
Financial Assets					
Cash and cash equivalents	P 777,305	P 777,305	P 777,305	P -	P -
Trade and other receivables - net	2,466,737	2,466,737	2,466,737	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	242	242	242	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	42,720	42,720	-	42,235	485
Financial Liabilities					
Notes payable	7,998,111	8,030,467	8,030,467	-	-
Trade and other payables (excluding dividends payable)	1,888,803	1,888,803	1,888,803	-	-
Derivative liabilities (included under "Trade and other payables" account)	2,403	2,403	2,403	-	-
Long-term debt (including current maturities)	228,571	238,735	121,576	117,159	-

Credit Risk

Credit risk is the risk of financial loss to the Group 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.

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

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

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

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	June 30, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	**P193,716**	P775,353
Trade and other receivables - net	**2,213,679**	2,466,737
Derivative assets	**24**	242
Noncurrent receivables and deposits	**42,720**	42,720
	P2,450,140	P3,285,052

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

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any.

The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

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.

6. 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.

The Group has no financial assets classified as HTM investments and AFS financial assets as of June 30, 2017 and December 31, 2016.

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

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in 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 changeb in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category.

<u>*Financial Liabilities*</u>
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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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.

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

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. 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, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P196,437**	**P196,437**	P 777,305	P 777,305
Trade and other receivables - net	**2,213,680**	**2,213,680**	2,466,737	2,466,737
Derivative assets (included under "Prepaid expenses and other current assets" account)	**24**	**24**	242	242
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	**42,720**	**42,720**	42,720	42,720
Financial Liabilities				
Notes payable	**7,153,085**	**7,153,085**	7,998,111	7,998,111
Trade and other payables (excluding dividends payable)	**2,047,291**	**2,047,291**	1,888,803	1,888,803
Derivative liabilities (included under "Trade and other payables" account)	**11,078**	**11,078**	2,403	2,403
Long-term debt (including current maturities)	**171,428**	**171,428**	228,571	228,571

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Notes Payable and 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 rate used for Philippine peso-denominated loans is 4% as of June 30, 2017 and December 31, 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

Derivative Instruments not Designated as Hedges

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$13,036, US$21,805 and US$4,339 as of June 30 and March 31, 2017 and December 31, 2016, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P11,054, P13,450 and P2,161 as of June 30 and March 31, 2017 and December 31, 2016, respectively.

For the periods ended June 30, 2017 and 2016 and March 31, 2017 and 2016 the Group recognized marked-to-market gains (losses) from embedded derivatives amounting to (P12,510), P133, (P14,403) and P6,393, 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: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for 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 P24 and P11,078 respectively, as of June 30, 2017 and P242 and P2,403, respectively, as of December 31, 2016, 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.

7. 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 relationships 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, 2017.

(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, 2017. 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.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL 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, 2017 (with comparative figures as of December 31, 2016 and for the period ended June 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2017, 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

2017 vs. 2016

Revenue of P10,124 million was 20% higher than prior year due to the steady improvement of core brand Ginebra San Miguel. Gross profit also grew by 17% to 2,555 million, on account of continuous effort to manage costs despite increasing raw material prices and excise taxes.

Additional spending in advertising and promotion programs brought the 23% increase in selling and marketing expenses.

Interest expense and other financing charges decreased by 28% as a result of the decline in short-term loan requirements and settlement of long-term obligation. On the other hand, share in net losses of the joint venture amounted to P41M.

Other income posted an increase of 15% due to the improvement in tolling income, partly offset by the increase in derivative losses, brought about by the peso devaluation.

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 in joint ventures amounted to P2 million in 2016 compared to (P17) million share in equity 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.

II. FINANCIAL POSITION

2017 vs. 2016

Total current assets decreased by 1% compared to last year mainly due to decrease in cash and cash equivalents and accounts receivable to pay off short term and long term debts. Effects of this was offset by the increase in inventories due to purchase of raw materials and other prepayments.

Application of prior year taxes paid to current taxes due caused the decrease in deferred tax assets by 15%.

Total liabilities decreased by 7% on account of short term and long term debt repayments.

Furthermore, decrease of 102% on equity reserve represents translation adjustments on TSML's net assets

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 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 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.

Equity

The increase in equity for the period ended December 31, 2017 and 2016 is due to:

	June 30	
	2017	2016
	(In Millions)	
Net income for the period	**P265**	P138
Share in other comprehensive income of joint ventures	**42**	14
	P307	P152

III. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

Table 2: Sources and Uses of Cash

	June 30	
	2017	2016
	(In Millions)	
Net cash flows provided by (used in) operating activities	**P547**	(P121)
Net cash flows provided by (used in) investing activities	**(68)**	15
Net cash flows used in financing activities	**(1,060)**	(72)

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

	June 30	
	2017	2016
	(In Millions)	
Additions to property, plant and equipment	**(P68)**	(P96)

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

	June 30	
	2017	2016
	(In Millions)	
Proceeds from:		
Short-term borrowings	**P34,292**	P37,094
Payments of:		
Short-term borrowings	**(35,137)**	(36,894)
Long-term borrowings	**(57)**	(57)
Interest	**(157)**	(216)

The effect of exchange rate changes on cash and cash equivalents amounted to P0.24 million and P0.07 for the periods ended June 30, 2017 and 2016, respectively.

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, 2017	June 30, 2016
Liquidity:		
Current Ratio	**0.81**	0.74
Solvency:		
Debt to Equity Ratio	**2.11**	2.68
Asset to Equity Ratio	**3.11**	3.68
Profitability:		
Return on Average Equity	**6%**	6%
Interest Rate Coverage Ratio	**3.55**	3.69

KPI	Period Ended June 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**19%**	12%
Revenue Growth	**20%**	15%
Operating Margin	**6%**	5%

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	$\frac{\text{Earnings Before Interests, Taxes}}{\text{Interest Expense and Other Financing Charges}}$
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	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$