GINEBRA SAN MIGUEL INC.

IN HIGH SPIRITS

2016 ANNUAL REPORT

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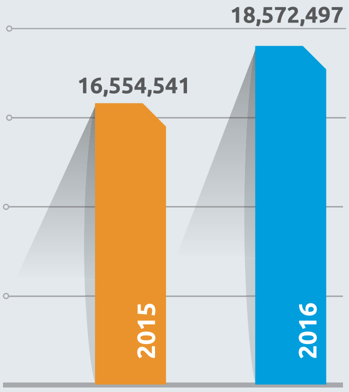
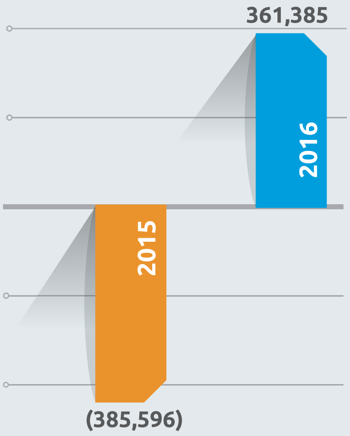
FINANCIAL HIGHLIGHTS

In Thousands Pesos, Except Per Share Data

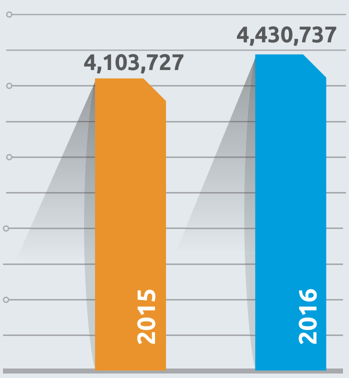
Net Revenues



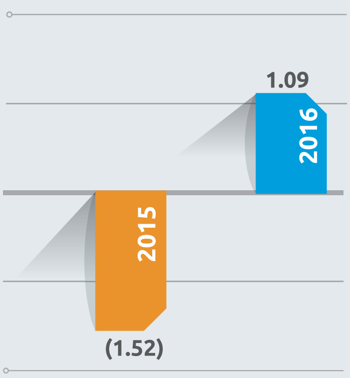
Net Income (Loss)



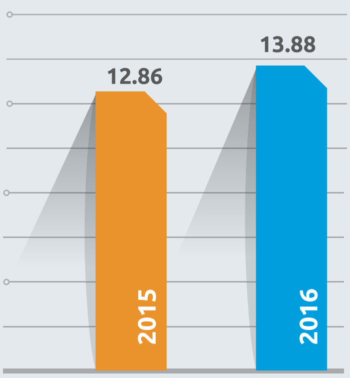
Stockholders' Equity



Basic and Diluted Earnings (Loss) Per Share



Stockholders' Equity Per Share



[1] Based on the number of shares outstanding at the end of each year

MESSAGE TO STOCKHOLDERS

At Ginebra San Miguel, it's no wonder we're in very high spirits.

The hard work we've put into strengthening our core brands and reclaiming market share has finally paid off. In 2016, we returned our company to profitability, delivering significant growth across all key performance indicators.

For the third straight year, volumes grew, registering a 9% improvement over the previous year. As a result, consolidated revenues increased 12% to P18.6 billion. Our income from continuing operations more than doubled to P361 million from P146 million in 2015, and consequently, we realized a net income of P361 million—a full reversal of the P386 million loss in the previous year.

Healthy margins brought about specifically by measures designed to mitigate rising alcohol prices helped contribute to these results. Where it made sense, we ramped up alcohol imports, and at the same time developed new technology that allows us to increase alcohol yield. The success of our bottle retrieval network also contributed to better margins.

It's in terms of improving the brand equity and managing to recruit a new generation of consumers to our flagship Ginebra San Miguel and other affiliated brands like Vino Kulafu, that we are especially proud. In the overall liquor industry, we regained three percentage points from the competition, based on the Nielsen Retail Audit report for December 2016.*

Certainly, this turnaround has been hard-fought, particularly as much of our efforts to build resiliency started some years back, when the market shifted to lighter alcoholic products. Competition coming from new players, as well as a new excise tax regime, made GSMI's recovery all the more challenging.

But true to the tenet that brand Ginebra has been known for—"never say die"—we hunkered down to work, stuck to our gameplan, built up our capabilities, and reconnected with core consumers, at the same time reaching out to newer drinkers. Today, we can proudly say we have regained dominance in our key markets.

*Nielsen FMCG2015/2016 Retail Universe

Our business is in a better position to realize our larger goals: to become the leading spirits company in the country, and to pursue a larger international presence.

Our optimism is best reflected by the slogan by which our flagship Ginebra San Miguel earned back volumes and retook its leading position: "Ganado sa Buhay." Not only has this campaign repositioned the brand to appeal to core and new drinkers, it also defines our company's outlook on the future and the challenges that lie ahead.

Building on this exceptional year, we're going to continue prioritizing brand investment, driving efficiencies and improving our distribution and dealer network, to further develop our market reach.

We remain grateful for the trust you have shown us throughout this journey. With your support, and the hard work of our employees, we are inspired and emboldened to take the necessary steps to bring your company even greater success.

Isang ganadong pasasalamat sa inyong lahat!

EDUARDO M. COJUANGCO, JR.
Chairman & CEO

BERNARD D. MARQUEZ
President

RENEWED SPIRIT

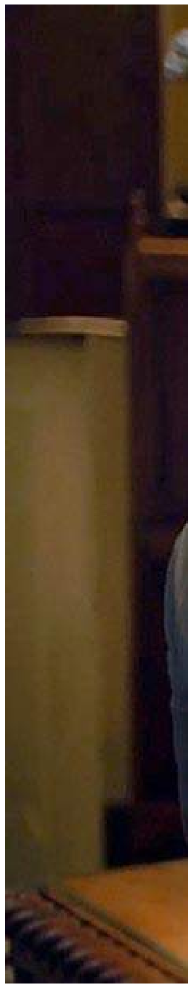
Ginebra San Miguel has been part of Filipino life for over 180 years. Our products have been a staple in celebrations for over nine generations. Our brand, undoubtedly, has strong recognition and a loyal following. But to build volumes, new markets must be reached.

That's why in 2016, GSMI set out to reinvent. We revamped prominent marketing campaigns and introduced fresh, new ones that still stayed true to the brand's messaging and core image and values. We also explored new means of marketing our different products.

Flagship Ginebra San Miguel's "Ganado Sa Buhay" campaign continued to pay tribute to hardworking Filipinos. In 2016, we released the third installment to the TV ad series. As a nod to younger consumers, the new commercials focused on ambitious youths whose inherent strength and willingness to sacrifice, allow them to attain their goals.

Besides the "Ganado Sa Buhay" ads, Ginebra San Miguel also focused on below-the-line activations targeted at younger consumers. The Ginumanfest concert series continued to be an effective tool in reaching new markets and creating a new generation of Ginebra drinkers. Meanwhile, the GSMI Mobile Bar, which has received some upgrades, also continued to draw attention and drive consumption for our brands at town fiestas, music festivals, and street parties.

As the world's largest selling gin brand, we took it upon ourselves to lead the celebration of World Gin Day. To bring the celebrations to where consumers are, we staged events at various bars all over the metro. Top bands Callalily and Silent Sanctuary and 2016



Ginebra San Miguel's 'Ganado sa Buhay' campaign focuses on younger consumers.

Ginebra Calendar Girl Arci Muñoz led many of our major events. Towards the end of the year, we launched our 2017 Ginebra calendar featuring upcoming talent Kim Domingo.

These efforts helped us achieve record sales for Ginebra San Miguel—the highest in twelve years.

The popularity of super-premium and ultra-premium gin is also on the rise worldwide. As such, we have started developing this segment. We positioned Ginebra San Miguel Premium Gin as a fixture in events frequented by sophisticates, including Art Fair Philippines, Art and Appetite, and Sinag Maynila.

It was a good year, too, for Vino Kulafu, our core brand in Visayas and Mindanao. Its volumes in 2016 are the highest in the last decade. To fortify dominance in the Chinese Wine segment, we released a new TV commercial for Vino Kulafu, which aired throughout its stronghold regions. We followed this up with aggressive merchandising to increase visibility in retail outlets.

Primera Light Brandy, our new player in the brandy segment, got a major boost from the launch of its first major campaign, dubbed "Tamang Swabe, Swabeng Tama," which features actor Ian Veneracion as its brand ambassador.

But as always, it's still our involvement in Philippine basketball that allows us to reach the vast majority of Filipinos. Ginebra fever reached an all-time high in 2016, when our Barangay Ginebra Gin Kings finally captured the Philippine Basketball Association Governors' Cup championship.

We took full advantage of this achievement by reaching out to fans to celebrate the victory. We also launched basketball-related marketing programs.

The "Bring Home the Kings" promo was a big hit among consumers. The promo, the first of its kind in the PBA, gave consumers the chance to own highly collectible figures of Gin Kings LA Tenorio, Mark Caguiao, Jayjay Helterbrand, Greg Slaughter, and Japeth Aguilar.

We also organized a "3-on-3" basketball tournament at the SM North Edsa Sky Dome, which brought together teams from all over the country.

With the consumers' ever-evolving lifestyle, gaining a share of the market will be both challenging and exciting. GSMI will continue to keep an eye on the trends to provide our consumers products and services that they will surely enjoy.

Shown in photos (from top) World Gin Day celebration, Primera Light Brandy endorser Ian Veneracion, GSMI mobile bar, winners of 3-on-3 basketball tournament, the Calendar Girl Launch, and a rendition of Ginebra San Miguel logo featured at the Art Fair.

Mark Caguioa and Jayjay Helterbrand, two of the original players from that championship eight years ago, are symbols of the never-say-die spirit that is the essence of Ginebra.

THE SPIRIT TO WIN

Winning isn't always about being on top; it is the rise each time you fall, the perseverance to carry on despite the odds, or furthermore—the sheer will to overcome the odds.

That's what makes a winner—to never say die. And this year's unprecedented growth only proves Ginebra has always embodied this character.

There is truly much to celebrate in the year 2016. The company has reached its third consecutive year of growth, grabbed share from competition, increased its revenues and improved its bottom line. Together with that, we celebrate a big win for the Barangay Ginebra San Miguel Gin Kings—a first since the Fiesta Conference win back in 2008.

Mark Caguioa and Jayjay Helterbrand, two of the original players from that championship eight years ago, are symbols of the never-say-die spirit that is the essence of Ginebra. Leading by example, they inspire us with their drive to rise above challenges. For if there are two people who could give us a glimpse of the resilience Ginebra has always been known for—it would be Mark and Jayjay having gone through eight years of defeat, only to emerge as champions.

Never giving up no matter how rough things get on the hard court, both players infuse a lot of passion and intensity in the game. "I'm very passionate, I go hard every single time," says Jayjay. "I bring a lot of intensity on defense," adds Mark. The support of fellow kabarangays is also a huge factor—proving that with unity and moral support, you can achieve great things. "Every time I see them (the fans) cheering for us, mas ginaganahan ako maglaro," explains Jayjay. Faith also plays an important part for Jayjay. Every time he plays a game, he remembers to pray to God and offer the entire game to Him. "I want to give it back to Him by really working hard and show Him that we're not wasting this talent that He has given us."

Passion, intensity, the support of fellow kabarangays and faith may appear to be the fuel that fires the spirit to win. But in the end, it would seem sheer will and determination—especially in low moments—make the difference. And sometimes all it takes is a word of advice from a legend who's been through it all. When the Gin Kings made it to the Governors' Cup Finals for the first time in 8 years, the entire nation watched with eager anticipation of a comeback. During the definitive Game 6, the crowd went into fever pitch as living legend Robert Jaworski made an appearance to support his former team.

The first half of the game didn't turn out so well, the Gin Kings were down double figures. And in true Jaworski fashion, the Big J snuck through the dugout and did what he did best during his glory days as a playing coach—remind his fellow kabarangays of that never-say-die spirit they are made of. "You guys are better than what you are showing," he quips. He noticed the tension and told them to play loose and play the game they were capable of.

Taking those simple words to heart, the Gin Kings won a victory that broke the 8-year drought.

Jaworski, former playing coach and star player of the 80's started the never-say-die spirit when he would play the game with unrelenting passion and the insatiable desire to win. Bloodied, bruised and battered, he would carry on and show everyone what it meant to never give up. That it wasn't so much about winning anymore, but the drive to keep pushing forward despite the odds—and this is the legacy that each and every kabarangay player lives on. "We're just trying to live up to the never-say-die spirit that he (Jaworski) showed us," says Jayjay.

It is in these moments that the spirit of winning is defined. And this is what it means to be a kabarangay, a lahing Ginebra. Mark and Jayjay may exemplify it, but this spirit of resilience is in each and every one of us. We never-say-die, and that's what makes us a winner.


D
G
F
A
B
KULAFU
G.S.M. BLUE

PORTFOLIO OF BEVERAGES

A GINEBRA SAN MIGUEL

Angelito 250 mL
Round 350 mL
Frasquito 350 mL
Frasco 700 mL

B GSM BLUE

Solo 350 mL
Long Neck 700 mL

C GINEBRA SAN MIGUEL PREMIUM GIN

750 mL

D G.S.M. BLUE FLAVORS MOJITO, BROWN COFFEE

Solo 350 mL
Long Neck 700 mL

E PRIMERA LIGHT BRANDY

Solo 350 mL
Long Neck 750 mL

F VINO KULAFU

Classic 350 mL
Long Neck 700 mL

G ANTONOV VODKA

700 mL

H TONDENA MANILA RUM
(for export only)

Gold, Dark, Silver 700 mL

IN THE SPIRIT OF PARTNERSHIP

> Natutuwa kami na napili ng Ginebra San Miguel ang aming barangay para sa proyektong ito. Magiging napakalaking tulong para sa aming mga kabarangay ang mga CCTVs. Dahil sa proyektong ito, mas napaigting ang aming samahan sa barangay.
>
> **Larry Chan**
> Brgy. Captain, Maura
> Aparri, Cagayan

True to the spirit of being a kabarangay, Ginebra San Miguel Inc. (GSMI) continues to work hand-in-hand with people in its communities, to ensure they have access to opportunities that will enable them to overcome their own challenges and uplift their lives.

Guided by our core thrust of building better communities, in 2016, we partnered with various government units as well as the academe, to implement three major Corporate Social Responsibility projects.

Community Program

Maura is one of 42 barangays in the first class municipality of Aparri in Cagayan. A relatively peaceful and crime-free community, residents and local officials have always wanted to install CCTV cameras in strategic areas such as schools and major streets, to ensure that peace and order is preserved at all times.

To this end, GSMI partnered with the local government to launch a second-hand bottle-retrieval program in the municipality dubbed "BOTEful Aparri." Under the program, the residents were given pedicabs which they now use to clear their municipality of second-hand bottles. Once the target volume is achieved, GSMI will then take care of installing high-definition CCTV cameras throughout the community, to help barangay officials monitor petty crimes.

The program has also helped instill camaraderie and a spirit of "bayanihan" within the community.

Scholarships

Last year, we launched a program to provide full scholarships for underprivileged but deserving graduating students of B.S. Mechanical Engineering and B.S Chemistry.

Scholars will be provided full year tuition fee during their last year in college, board and lodging during review, and payment of board review fees, among others.

The partnership was forged with state universities in Urdaneta City, Pangasinan (Pangasinan State University); Muñoz, Nueva Ecija (Central State University); Intramuros, Manila (Pamantasan ng Lungsod ng Maynila); Batangas City, Batangas (Batangas State University), and Dumaguete, Negros Oriental (Negros Oriental State University).

The program also gives scholars the opportunity to be hired by the company after they graduate.

"

Isang malaking blessing ang mapiling scholar ng Ginebra San Miguel. Ang oportunidad na ito ay nagbigay sa akin di lang ng pagkakataon na maka graduate, kundi isa rin itong pagkakataon para mapaunlad ang aking sarili, at sa huli, ay mapaunlad din ang buhay ng aking pamilya.

Jay-ann Ulalan
5th year BS Mechanical Engineering student,
Pangasinan State University

Since graduating from TESDA, our scholars turned bartenders/entrepreneurs have been sought after for their mobile bar services offering their unique cocktail mixes in various events and parties.

Livelihood Opportunities

The Ginebra-TESDA Technopreneurship Program continues to provide opportunities to individuals who wish to pursue a career in the service industry. The partnership, started some three years ago, is the first of its kind and has been a big success for the company. Thus far, over a hundred beneficiaries from eight regions have graduated from the program. The new mobile bar operators have also posted an estimated P1 million in earnings in just their first year of business.

As part of efforts to continue improving the skills of students, GSMI introduced new programs in the curriculum in early 2016. Among these is a tour of the GSMI Cabuyao plant, which is aimed at giving students a deeper understanding of the entire alcohol production process. Students of the GSMI-TESDA program have also been regularly recruited to be part of our various external and internal company events, which provide them added earning opportunities as well as experience and exposure in handling major events.

BOARD OF DIRECTORS

Eduardo M. Cojuangco, Jr.
Chairman & Chief Executive Officer

Ramon S. Ang
Vice-Chairman

Bernard D. Marquez
President

Francisco S. Alejo III

Leo S. Alvez

Gabriel S. Claudio

Mario K. Surio

Minita V. Chico-Nazario
Independent Director

Francisco H. Villaruz, Jr.*
Independent Director

* Ceased to be a director of the Company, upon his demise on October 30, 2016.

CORPORATE GOVERNANCE

Corporate Governance is the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.[1]

The Company's Board of Directors (the "Board"), Management, Officers, employees and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management. In line with this, the Company consistently exerted efforts to create awarenesss within its organization of the importance of knowing and implementing good corporate governance practices. Consequently, on August 6, 2002, Ginebra San Miguel Inc. (the "Company") adopted a Manual on Corporate Governance (the "Manual") to institutionalize the principles of good corporate governance in its entire organization.

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

On November 22, 2016, the SEC, through its Memorandum Circular No. 19, Series of 2016, informed publicly-listed companies of its approval of the Code of Corporate Governance for Publicly-Listed Companies (the "CG Code for PLCs"), which took effect on January 1, 2017. The CG Code for PLCs adopts the "comply or explain" approach which combines voluntary compliance with mandatory disclosure. The Company will accordingly comply with this recent issuance and will submit a revised or new Manual to the SEC on or before May 31, 2017.

The Company, through its Board, officers and employees continously strive to further strengthen and deepen its commitment to good corporate governance practices.

BOARD OF DIRECTORS

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

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

Implementation of good corporate governance practices necessarily requires that the Board is kept abreast of relevant laws, rules, regulations, circulars and issuances of the different regulatory bodies to ensure compliance therewith (collectively, "Regulations"). The Company's Compliance Officer has kept the members of the Board updated on recent Regulations by informing them of the same during Board meetings. Moreover, all the members of the Board attended annual Corporate Governance Seminars conducted by SEC-accredited providers, the latest of which was held in 2016.

Board Composition

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

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[1]As defined in the 2016 Code of Corporate Governance for Publicly-listed Companies that was approved on November 10, 2016.

Independent Directors
The Company has two (2) Independent Directors (ID), who, apart from their fees and shareholdings, have no business or relationship with the Company, which could, or could reasonably be perceived to, materially interfere with the exercise of their independent judgment in carrying out their responsibilities. In 2016, the Independent Directors of the Company are Minita V. Chico-Nazario and Francisco H. Villaruz, Jr.,[2] who as of 2016 have served as such only for five (5) years and less than two (2) years, respectively, well within the prevailing maximum nine (9)-year term limit for Independent Directors.

Chairman & Chief Executive Officer and President
Mr. Eduardo M. Cojuangco, Jr. holds the position of Chairman of the Board and Chief Executive Officer, a structure that has consistently worked well for the Company. Mr. Bernard D. Marquez is the President. Their respective roles are clearly defined to ensure independence, accountability and responsibility in the discharge of their respective duties.

Board Performance

In order to accomplish its duties and responsibilities, the Board holds regular meetings during the year. To ensure attendance to the meetings, the schedule thereof is determined and made known ahead of time. The members of the Board were informed of the dates of the 2016 meetings during their November 9, 2015 meeting. As a matter of course, the Corporate Secretary, prior to the date of the meeting sends notices and agenda to the members of the Board, as well as other necessary information to facilitate discussion and enable the directors to arrive at intelligent decisions on matters requiring Board approval. In 2016, the Board held four (4) regular meetings and one (1) organizational meeting. The members of the Board also attended the 2016 RSM. During Board meetings, the members of the Board were free to express their thoughts and opinions. Active participation of the directors for a more productive discussion was encouraged during meetings.

The details relative to the attendance of the directors in the Board Meetings and RSM in 2016 are shown in the table below:

	BOARD MEETINGS IN 2016					RSM
DIRECTORS	MAR 16	MAY 11	MAY 26	AUG 9	NOV 9	MAY 26
Eduardo M. Cojuangco, Jr.	Present	Present	Present	Present	Present	Present
Ramon S. Ang	Present	Present	Present	Present	Present	Present
Bernard D. Marquez	Present	Present	Present	Present	Present	Present
Francisco S. Alejo III	Present	Present	Present	Present	Present	Present
Leo S. Alvez	Present	Present	Present	Present	Present	Present
Gabriel S. Claudio	Present	Present	Present	Present	Present	Present
Mario K. Surio	Present	Present	Present	Present	Present	Present
Minita V. Chico-Nazario	Present	Present	Absent	Present	Present	Absent
Francisco H. Villaruz, Jr.	Present	Present	Present	Present	N/A*	Present

*N/A means "Not Applicable" since Director Villaruz ceased to be a director upon his demise on October 30, 2016.

The Board has implemented an annual internal self-rating system since its adoption on November 8, 2011, in order to assess and improve the performance of the Board in accordance with the best practices in corporate governance and the effectiveness of the Company's governance process. The said system entails the accomplishment of a self-rating form that covers four (4) broad areas of Board performance, namely: Fulfillment of the Board's Key Responsibilities; Board – Management Relationship; Effectiveness of Board Processes and Meetings; and Individual Performance of Board Members. Results of the assessment are made known to the Board for their information and guidance. For 2016, each of the directors were required to accomplish the said form.

[2]Ceased to be a director upon his demise on October 30, 2016.

Board Committees

To aid the Board in complying with the principles of good corporate governance, the Board constituted four (4) committees, namely: 1) Executive Committee; 2) Nomination and Hearing Committee; 3) Executive Compensation Committee; and 4) Audit Committee. In order to further clarify and expound on the role, authority, duties and responsibilities of the Board Committees, each of the Committees, with the exception of the Executive Committee, approved and adopted their respective charters. The Audit Committee Charter was approved on November 9, 2012 while the respective Charters of the Nomination and Hearing Committee and Executive Compensation Committee, were approved on November 7, 2013.

The following are the members of the Board Committees:

EXECUTIVE COMMITTEE

Members	Role
Eduardo M. Cojuangco, Jr. (Chairman) Ramon S. Ang Bernard D. Marquez Francisco S. Alejo III Ferdinand K. Constantino (Non-Director Member)	The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, except as specifically limited by the Board or by law.

NOMINATION AND HEARING COMMITTEE

Members	Role
Leo S. Alvez (Chairman) Bernard D. Marquez Gabriel S. Claudio Francisco H. Villaruz, Jr. (ID) Mario K. Surio Casiano B. Cabalan, Jr. (Ex Officio Member)	The Committee, among others, pre-screens and shortlists candidates for nomination to become a member of the Board in accordance with the qualifications and disqualifications for directors set out in the Amended Articles of Incorporation ("Articles") and By-Laws, Manual, as well as applicable laws, rules and regulations, including the issuances of the SEC.

EXECUTIVE COMPENSATION COMMITTEE

MEMBERS	Role
Ramon S. Ang (Chairman) Bernard D. Marquez Leo S. Alvez Minita V. Chico-Nazario (ID) Ferdinand K. Constantino (Non-Director Member)	The Committee advises the Board on the establishment of formal and transparent policies and practices on remuneration of directors and executives and provides oversight function over remuneration of senior management and other key personnel, ensuring consistency with the Company's culture, strategy and control environment.

AUDIT COMMITTEE

Members	Role
Minita V. Chico-Nazario (ID and Chairperson) Leo S. Alvez Francisco S. Alejo III Francisco H. Villaruz, Jr. (ID) Ferdinand K. Constantino (Non-Director Member)	The Committee assists the Board in fulfilling its oversight responsibility on the Company's corporate governance processes relating to financial statements and financial reporting process, risk management, internal control system, audit processes, and compliance with accounting standards, legal and regulatory requirements.

Board Committee Performance
The Nomination and Hearing Committee and Audit Committee were the only committees that held meetings in 2016. The Nomination and Hearing Committee convened on March 16, 2016 and all the members were present to discuss and evaluate the qualifications of the nominees for the Board of Directors of the Company for 2016. The Audit Committee held meetings to, among others, review and approve the Company's 2015 Audited Consolidated Financial Statements, as well as the Company's unaudited financial statements for the first three (3) quarters of 2016. Every year the Audit Committee issues a Report relative to the attainment of their mandate by enumerating the specific duties and responsibilities that they performed for the year. This report is published in the Company's Annual Report.

The details of the attendance of the directors in the Audit Committee meetings in 2016 are shown below:

	AUDIT COMMITTEE MEETINGS IN 2016			
MEMBERS	MAR 16	MAY 11	AUG 9	NOV 9
Minita V. Chico-Nazario	Present	Present	Present	Present
Ferdinand K. Constantino	Present	Present	Present	Present
Francisco S. Alejo III	Present	Present	Present	Present
Leo S. Alvez	Present	Present	Present	Present
Francisco H. Villaruz, Jr.	Present	Present	Present	N/A*

*N/A means "Not Applicable" since Director Villaruz ceased to be a director upon his demise on October 30, 2016.

Board Remuneration
In 2016, each director received a per diem of Ten Thousand Pesos (P10,000.00) per attendance at Board and Committee meetings of the Company.

ACCOUNTABILITY AND AUDIT
The Audit Committee performs oversight functions to both external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Manual and Audit Committee Charter.

External Auditor
The External Auditor, whose main function is to facilitate an environment of good corporate governance as reflected in the Company's financial records and reports, is selected and appointed by the stockholders upon the recommendation of the Audit Committee. In instances when the External Auditor suspects fraud or error during its conduct of audit, it is required to disclose and express its findings on the matter.

Upon the recommendation of the Audit Committee, the Board endorsed R.G. Manabat & Co. (formerly Manabat Sanagustin & Co., CPAs) to be appointed as External Auditor of the Company for 2016. Such appointment was approved by the stockholders during the RSM held on May 26, 2016. Representatives of the audit firm were present and available at the RSM, to respond to appropriate questions and were given an opportunity to make a statement, if they so desire.

The accounting firm of R.G. Manabat & Co. has been the Company's External Auditor since 2006. Compliant with the requirement of the Securities Regulation Code ("SRC") with respect to the re-engagement of the said audit firm, the Company consistently observes the rule on rotation for the signing partner every after five (5) years.

Fees for the services rendered by the external auditor to the Company and its subsidiaries in connection with the Company's annual financial statements and other statutory and regulatory filings for 2016 amounted to about Seven Million Pesos (P7,000,000.00).

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

Internal Auditor

The Company maintains an internal auditing department known as the Ginebra San Miguel Group Audit ("GSM Group Audit"), in order to review and evaluate its Philippine and international operations, including those of its subsidiaries. It reports functionally to the Audit Committee and administratively to the Company's President.

The GSM Group Audit is governed by its own Internal Audit Charter which sets forth the policy, purpose, scope of work, responsibility and authority, independence and standards of audit practice. Consistent with its Charter, the said group provides an independent and objective assurance that the risk management, control and governance processes of the Company and its subsidiaries are adequate and functioning. It is also responsible for identifying and evaluating significant risk exposures of the Company and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations, and information systems. The GSM Group Audit is also guided by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

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

DISCLOSURE AND TRANSPARENCY

Committed to providing means for its stockholders and other stakeholders to know and appreciate the Company's true business and financial condition, as well as the quality of its corporate governance, the Company implements full disclosure and transparency in its transactions. Thus, as and whenever necessary, the Company files reports and disclosures to regulatory bodies, such as the SEC, the Philippine Stock Exchange, Inc. ("PSE") and the Bureau of Internal Revenue, which documents are uploaded in the Company's website.

Ownership Structure

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

Financial Reporting

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

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

The Company's audited Consolidated Financial Statements were prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS, which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations. The Consolidated Financial Statements as of December 31, 2016 were approved and authorized for issue in accordance with the resolution of the Board on March 15, 2017.

Securities Dealing

Committed to the highest standards of values, expertise and professionalism, the Company adopted a Policy on Dealings in Securities to comply with international best practices in corporate governance. This policy mandates the directors, officers and employees of the Company and its subsidiaries ("GSMI Group") to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy, as well as the requirements of the SRC. It sets out the conditions and rules under which the directors, officers and employees of the GSMI Group shall deal in securities of the Company.

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

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

The Company, in the normal course of business, has significant transactions with related parties pertaining to purchases of containers, bottles and other packaging materials and sale of liquor and by-products. It has also entered into various lease agreements with related parties as a lessor and lessee. An assessment is undertaken at each fiscal year by examining the financial position of the related party and the market in which the related party operates. Related party transactions are fully disclosed in the Company's Notes to its audited Consolidated Financial Statements.

STOCKHOLDERS' RIGHTS AND STAKEHOLDER RELATIONS

Stockholders' Meeting

Stockholders are encouraged to personally attend the RSM. The Company does not solicit proxy from the stockholders and are in fact requested not to send proxy. However, should stockholders be unable to attend, they are informed that they may execute a proxy in favor of their representative. A sample of the proxy is also provided to them for their reference. Stockholders are informed of the details of the RSM through the IS that is sent to each stockholder at least fifteen (15) business days before the scheduled date of the meeting. IS contains the notice, agenda and other relevant information about the Company. The Notice to Stockholders sets the date, time, venue and agenda of the RSM. It also contains information pertaining to proxies: the required document to be submitted, deadline for submission thereof and date of their validation. The Notice for the 2016 RSM was approximately sent to the stockholders on May 4, 2016.

Voting Rights and Voting Procedures

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

Pre-emptive Rights

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

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

Right to Information of Stakeholders and Investor Relations

The Company exercises transparency when dealing with stockholders, customers, employees and trade partners and ensures that these transactions adhere to industry standards and fair business practices in order to establish long-term and mutually beneficial relationships. Stakeholders can access important information about the Company, including its reportorial filings with the SEC and PSE, by visiting the Company's website.

Upon request, stakeholders are provided hard copies of the Company's disclosures, announcements, and periodic reports filed with the SEC and PSE, through the Investor Relations Office of the Company and its parent company, San Miguel Corporation.

The Company addresses the information requests of the investing community and keeps in touch with minority stockholders through timely disclosures to the SEC and PSE, regular quarterly Investors' Briefings, RSM, Company website, emails and telephone calls.

The Company also holds combined Investors' Briefings with SMC and other SMC subsidiaries and regularly meets with investment and financial analysts.

The shareholders of the Company shall be provided, upon request, with periodic reports which disclose relevant personal and professional information about the directors and officers and certain other matters such as their shareholdings in the Company, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers.

Dividends

Holders of common shares are entitled to receive dividends as the Board may, in its sole discretion, declare from time to time. Holders of preferred shares are entitled to participate and receive dividends as and when declared by the Board to common stockholders as such rate or amount as may be fixed by the Board. The Board, however, is required, subject to certain exceptions, to declare dividends when the Company's retained earnings equal or exceed its paid-up capital stock. Such right to receive dividends may be cumulative. No dividends were declared in 2016.

EMPLOYEE RELATIONS

"Respect for our People" is one of the Company's corporate values. The Company believes that its people are its strength. Concern for its employees' safety, health and welfare has always been the Company's top priority. In line with this, the Company ensures compliance with general labor standards, inclusive of occupational health and safety standards in the workplace. It has in place, various policies and programs geared towards the promotion of the employees' safety, health and welfare. Among others, annual physical examinations of employees are conducted, as well as other employee-related activities such as Health and Wellness Day and Sports Tournaments are held throughout the year.

The Company is committed to maintain a work environment that encourages trust, openness and mutual respect, regardless of rank or title and promotes a healthy work and life balance. It is also the Company's policy to promote career advancement and development of employees through the numerous training programs and seminars implemented by and/or facilitated by the Company's Human Resources Department. In 2016, the Company and its subsidiaries provided opportunities to its employees to attend numerous training programs covering various topics, conducted here and abroad. For this year, employees were given opportunity to participate in three (3) foreign and ninety (94) local trainings/programs.

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

Conflict of Interest

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

Code of Ethics

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

Whistle Blowing

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

COMPLIANCE MONITORING

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

WEBSITE

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

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2016

In compliance with the Company's Amended Manual on Corporate Governance (the "Manual") and Audit Committee Charter (the "Charter"), the Audit Committee (the "Committee") assists the Board of Directors (the "Board") in the performance of its oversight responsibility on the Company's corporate governance processes relating to financial reports and financial reporting process, risk management, internal control system, internal and external audit processes and methodologies, and in monitoring and facilitating compliance with accounting standards, legal and regulatory requirements. In 2016, the Committee performed the following:

- Recommended to the Board and endorsed for approval by the stockholders, the appointment of R.G. Manabat & Co., as the Company's independent External Auditor for 2016;
- Reviewed and approved the terms of engagement of the External Auditor, including the audit, audit-related and any non-audit services provided by the External Auditor to the Company and the fees for such services, and ensured that the same did not impair the External Auditor's independence and objectivity;
- Reviewed and approved the scope of audit and audit plans of the External Auditor as well as the Internal Audit Group of the Company, and discussed the results of their respective audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- Reviewed, discussed and recommended for approval of the Board the Company's 2016 quarterly financial statements and 2015 parent and consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presented a true and balanced assessment of the Company's financial position and condition and that such statements and reports complied with the regulatory requirements of the Securities and Exchange Commission and applicable laws, rules, regulations and issuances of regulatory bodies;
- Implemented a self-assessment procedure by accomplishing the Audit Committee Self-Assessment Form, which is intended to measure compliance of the Committee with its Charter, as well as improve performance of the Committee in accordance with the best practices in corporate governance; and
- Reviewed the adequacy, effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures were taken to address any concern or issue arising therefrom.

The Committee exerted best efforts in fulfilling its responsibilities as set forth in the Manual and Charter and substantially met its mandate in 2016.

Minita V. Chico-Nazario
Chairperson
Independent Director

Leo S. Alvez
Member

Francisco H. Villaruz, Jr*
Member - Independent Director

Francisco S. Alejo III
Member

Ferdinand K. Constantino
Member

*Passed away on October 30, 2016.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Ginebra San Miguel Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Cynthia M. Baroy
Chief Finance Officer

Bernard D. Marquez
President

KPMG

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REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Ginebra San Miguel Inc. and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Refer to Note 3, *Significant Accounting Policies* and Note 27, *Related Party Disclosures* to the consolidated financial statements.

The risk

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Group have been transferred. Whilst revenue recognition and measurement is not complex for the Group, revenue may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement.

Our response

We performed the following audit procedures, among others, around revenue recognition:

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

- We tested operating effectiveness of the key controls over revenue recognition.

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

- We checked on a sampling basis, the sales transactions to the delivery documents for the year.

- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.

- We tested journal entries posted to revenue accounts to identify unusual or irregular items.

- We tested credit notes recorded after the financial year to assess whether revenue has been recognized in the appropriate financial year.

KPMG

Valuation of Investments in Joint Ventures

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

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

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

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

- We examined evidences for any potential indicators of impairment.
- We assessed management's determination of the recoverable amount based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.
- We tested the integrity of the discounted cash flow model by comparing the Group's assumption to externally derived data such as projected economic growth, competition, cost of inflation and discount rates.
- We performed sensitivity analyses around the key assumptions used in the models.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

KPMG

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Noel A. Baladiang.

R.G. MANABAT & CO.

NOEL A. BALADIANG
Partner
CPA License No. 106166
SEC Accreditation No. 1473-A, Group A, valid until March 30, 2018
Tax Identification No. 223-804-972
BIR Accreditation No. 08-001987-33-2014
Issued October 15, 2014; valid until October 14, 2017
PTR No. 5904916MD
Issued January 3, 2017 at Makati City

March 15, 2017
Makati City, Metro Manila

KPMG

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ginebra San Miguel Inc. and Subsidiaries (the "Group") as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 15, 2017.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

noelbaladiang

NOEL A. BALADIANG
Partner
CPA License No. 106166
SEC Accreditation No. 1473-A, Group A, valid until March 30, 2018
Tax Identification No. 223-804-972
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Issued January 3, 2017 at Makati City

March 15, 2017
Makati City, Metro Manila

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	Note	**2016**	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 32, 33*	**P777,305**	P445,801
Trade and other receivables - net	*4, 8, 31, 32, 33*	**2,466,737**	2,881,785
Inventories	*4, 9*	**3,034,586**	3,090,271
Prepaid expenses and other current assets	*10, 32, 33*	**1,496,315**	1,472,393
Total Current Assets		**7,774,943**	7,890,250
Noncurrent Assets			
Investments in joint ventures	*4, 11*	**465,637**	524,850
Property, plant and equipment - net	*4, 12*	**5,356,656**	5,574,827
Goodwill	*4, 13*	**126,863**	126,863
Deferred tax assets	*4, 18*	**821,094**	810,305
Other noncurrent assets - net	*4, 14, 32, 33*	**616,749**	707,851
Total Noncurrent Assets		**7,386,999**	7,744,696
		P15,161,942	P15,634,946
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*15, 32, 33*	**P7,998,111**	P8,406,460
Trade and other payables	*16, 32, 33*	**1,896,452**	2,236,049
Income and other taxes payable		**176,093**	184,624
Current maturities of long-term debt - net of debt issue costs	*17, 32, 33*	**114,286**	114,286
Total Current Liabilities		**10,184,942**	10,941,419
Noncurrent Liabilities			
Retirement liabilities	*29*	**431,978**	361,229
Long-term debt - net of current maturities and debt issue costs	*17, 32, 33*	**114,285**	228,571
Total Noncurrent Liabilities		**546,263**	589,800
Total Liabilities		**10,731,205**	11,531,219
Equity	*19*		
Capital stock		**399,063**	399,063
Additional paid-in capital		**2,539,454**	2,539,454
Equity reserves		**(376,954)**	(342,579)
Retained earnings:			
Appropriated		**2,500,000**	2,500,000
Unappropriated		**2,039,147**	1,677,762
Treasury stock		**(2,669,973)**	(2,669,973)
Total Equity		**4,430,737**	4,103,727
		P15,161,942	P15,634,946

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands, Except Per Share Data)

	Note	**2016**	2015	2014
CONTINUING OPERATIONS				
SALES	*27*	**P18,572,497**	P16,554,541	P14,920,577
COST OF SALES	*20, 34*	**13,886,765**	12,181,764	10,947,315
GROSS PROFIT		**4,685,732**	4,372,777	3,973,262
SELLING AND MARKETING EXPENSES	*21*	**(1,924,081)**	(1,842,708)	(1,759,410)
GENERAL AND ADMINISTRATIVE EXPENSES	*22*	**(1,844,907)**	(1,892,963)	(1,662,472)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*15, 17, 25*	**(395,754)**	(486,159)	(560,313)
EQUITY IN NET LOSSES OF JOINT VENTURES	*11*	**(96,635)**	(109,667)	(66,265)
INTEREST INCOME	*27*	**23,359**	29,843	22,810
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	*12*	**1,343**	125,589	(89)
OTHER INCOME (CHARGES) - Net	*26*	**59,641**	(50,885)	(1,976)
INCOME (LOSS) BEFORE INCOME TAX		**508,698**	145,827	(54,453)
INCOME TAX EXPENSE	*18*	**147,313**	509,896	578,055
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		**361,385**	(364,069)	(632,508)
DISCONTINUED OPERATIONS				
LOSS FROM DISCONTINUED OPERATIONS - Net of tax	*6*	**-**	(21,527)	(133,699)
NET INCOME (LOSS)		**P361,385**	(P385,596)	(P766,207)
Basic and Diluted Earnings (Loss) Per Share	*30*	**P1.09**	(P1.52)	(P2.84)
Basic and Diluted Earnings (Loss) Per Share - Continuing Operations	*30*	**P1.09**	(P1.44)	(P2.37)

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	Note	**2016**	2015	2014
NET INCOME (LOSS)		**P361,385**	(P385,596)	(P766,207)
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that may be reclassified to profit or loss				
Share in other comprehensive income (loss) of joint ventures	*11*	**37,422**	(24,971)	5,564
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*29*	**(102,568)**	(182,704)	(69,958)
Income tax benefit		**30,771**	54,811	20,987
OTHER COMPREHENSIVE LOSS - Net of tax		**(34,375)**	(152,864)	(43,407)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax		**P327,010**	(P538,460)	(P809,614)

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

		Capital Stock		Additional Paid-in	Equity Reserves		Retained Earnings		Treasury	
					Reserve for Retirement	Cumulative Translation				
	Note	Common	Preferred	Capital	Plan	Adjustments	Appropriated	Unappropriated	Stock	Total
As of January 1, 2016		**P345,625**	**P53,438**	**P2,539,454**	**(P263,568)**	**(P79,011)**	**P2,500,000**	**P1,677,762**	**(P2,669,973)**	**P4,103,727**
Share in other comprehensive income of joint ventures	*11*	-	-	-	-	37,422	-	-	-	37,422
Equity reserve for retirement plan	*29*	-	-	-	(71,797)	-	-	-	-	(71,797)
Other comprehensive income(loss)		-	-	-	(71,797)	37,422	-	-	-	(34,375)
Net income		-	-	-	-	-	-	361,385	-	361,385
Total comprehensive income (loss)		-	-	-	(71,797)	37,422	-	361,385	-	327,010
As of December 31, 2016	*19*	**P345,625**	**P53,438**	**P2,539,454**	**(P335,365)**	**(P41,589)**	**P2,500,000**	**P2,039,147**	**(P2,669,973)**	**P4,430,737**
As of January 1, 2015		P345,625	P53,438	P2,539,454	(P135,675)	(P54,040)	P2,500,000	P2,063,358	(P2,669,973)	P4,642,187
Share in other comprehensive loss of joint ventures	*11*	-	-	-	-	(24,971)	-	-	-	(24,971)
Equity reserve for retirement plan	*29*	-	-	-	(127,893)	-	-	-	-	(127,893)
Other comprehensive loss		-	-	-	(127,893)	(24,971)	-	-	-	(152,864)
Net loss		-	-	-	-	-	-	(385,596)	-	(385,596)
Total comprehensive loss		-	-	-	(127,893)	(24,971)	-	(385,596)	-	(538,460)
As of December 31, 2015	*19*	P345,625	P53,438	P2,539,454	(P263,568)	(P79,011)	P2,500,000	P1,677,762	(P2,669,973)	P4,103,727

Forward

	Note	Capital Stock		Additional Paid-in Capital	Equity Reserves		Retained Earnings		Treasury Stock	Total
		Common	Preferred		Reserve for Retirement Plan	Cumulative Translation Adjustments	Appropriated	Unappropriated		
As of January 1, 2014		P345,625	P53,438	P2,539,454	(P86,704)	(P59,604)	P2,500,000	P2,829,565	(P2,579,409)	P5,542,365
Share in other comprehensive income of joint ventures	11	-	-	-	-	5,564	-	-	-	5,564
Equity reserve for retirement plan	29	-	-	-	(48,971)	-	-	-	-	(48,971)
Other comprehensive income (loss)		-	-	-	(48,971)	5,564	-	-	-	(43,407)
Net loss		-	-	-	-	-	-	(766,207)	-	(766,207)
Total comprehensive income (loss)		-	-	-	(48,971)	5,564	-	(766,207)	-	(809,614)
Cancellation of Employee Stock Purchase Plan reverted to treasury shares		-	-	-	-	-	-	-	(90,564)	(90,564)
As of December 31, 2014	19	P345,625	P53,438	P2,539,454	(P135,675)	(P54,040)	P2,500,000	P2,063,358	(P2,669,973)	P4,642,187

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	Note	**2016**	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax from:				
Continuing operations		**P508,698**	P145,827	(P54,453)
Discontinued operations	*6*	**-**	(30,753)	(190,998)
		508,698	115,074	(245,451)
Adjustments for:				
Depreciation and amortization	*6, 12, 23*	**638,124**	644,647	720,014
Interest expense and other financing charges	*15, 17, 25*	**395,754**	486,159	560,313
Provision for impairment losses	*8, 13, 14, 22, 26*	**138,300**	284,052	81,080
Write-down of inventories to net realizable value	*9, 20*	**104,451**	195,683	68,000
Equity in net losses of joint ventures	*11*	**96,635**	109,667	66,265
Retirement expense	*29*	**64,423**	56,826	61,078
Net derivative loss	*26*	**6,111**	702	2,459
Loss (gain) on sale of property and equipment - net	*6, 12*	**(626)**	(162,923)	103
Net unrealized foreign exchange loss (gain)	*26*	**(752)**	2,081	(2,778)
Interest income	*27*	**(23,359)**	(29,844)	(22,810)
Operating income before working capital changes		**1,927,759**	1,702,124	1,288,273
Decrease (increase) in:				
Trade and other receivables		**310,976**	800,143	216,871
Inventories		**(48,213)**	(624,127)	797,749
Prepaid expenses and other current assets		**(135,492)**	60,556	6,532
Increase (decrease) in:				
Trade and other payables		**(330,916)**	(37,314)	(215,799)
Income and other taxes payable		**3,577**	(32,528)	(5,808)
Cash generated from operations		**1,727,691**	1,868,854	2,087,818
Interest received		**23,405**	27,710	22,810
Income taxes paid		**(22,979)**	(30,430)	(11,793)
Contribution to retirement plan	*29*	**(96,242)**	(97,077)	(68,951)
Net cash flows provided by operating activities		**1,631,875**	1,769,057	2,029,884
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	*12*	**(381,925)**	(232,743)	(212,887)
Decrease (increase) in other noncurrent assets		**11,791**	38,060	(353,769)
Proceeds from sale of NAB assets	*6*	**-**	438,283	-
Proceeds from sale of property and equipment		**1,438**	139,717	882
Net cash flows provided by (used in) investing activities		**(368,696)**	383,317	(565,774)

Forward

	Note	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P74,243,387**	P81,992,016	P100,825,924
Collection of subscription receivables		**583**	4,687	9,639
Payments of:				
Short-term borrowings		**(74,651,736)**	(83,669,996)	(100,722,284)
Long-term borrowings		**(114,286)**	(114,286)	(928,571)
Interest and other financing charges		**(411,170)**	(498,989)	(585,041)
Cash dividends		**(8)**	(23)	(55)
Net cash flows used in financing activities		**(933,230)**	(2,286,591)	(1,400,388)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,555**	101	2,883
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**331,504**	(134,116)	66,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**445,801**	579,917	513,312
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P777,305**	P445,801	P579,917

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Percentages, Per Share Data and Number of Shares)

1. Reporting Entity

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 15, 2017.

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

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

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

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

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

A subsidiary is an entity controlled by the Group. The Group controls an entity if, and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of New and Amended Standards and Interpretation</u>
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation 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 apply to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function; (ii) that specific line items to be presented in the consolidated statements of financial position, consolidated statements of income and consolidated statements of comprehensive income can be disaggregated and additional guidance on subtotals to be presented in these statements; (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.

- 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 in determining whether the acquisition is accounted for as a business combination or an acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.

- 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.

- *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.

  - Disclosure 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.

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

New and Amended Standards and Interpretation Not Yet Adopted

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

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

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments improve the 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.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. 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.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. On initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

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

  - 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.

    The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

  - 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 Group withholds in excess of the employee's tax obligation associated with the share-based payment. The amendments also clarify that the Group 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 required to be applied prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. 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 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.

  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 for 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.

- 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 until the International Accounting Standards Board 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.

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 AFS financial assets and HTM investments as of December 31, 2016 and 2015.

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

Derivative Financial Instrument and Hedging

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

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

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

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

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

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

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

The Group has not bifurcated any embedded derivatives as of December 31, 2016 and 2015.

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.

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 are 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.

Inventories

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

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

Finished goods	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; costs are determined using the moving-average method.
Materials and supplies	-	at cost, using the moving-average method.

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

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

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

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "General and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

Goodwill in a Business Combination
Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

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

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

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

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the joint venture and then recognizes the loss as part of "Equity in net losses of joint ventures" account in the consolidated statements of income.

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 10
Buildings and improvements	20 - 50
Transportation equipment	5
Machinery and equipment	3 - 40
Furniture, fixtures and other equipment	2 - 5
Leasehold improvements	10 - 30 or term of the lease, whichever is shorter

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

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

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

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

Intangible Assets

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

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

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

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

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

Impairment of Non-financial Assets

The carrying amounts of investments in joint ventures, property, plant and equipment, intangible assets, deferred containers and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

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

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

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

Revenue from Rendering of Services
Revenue is recognized upon satisfactory performance of services which is manufacturing and bottling of NAB in favor of the customer, where such production inputs are in the name of the customer.

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

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

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Research Costs
Research costs are expensed as incurred.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs
The Company and DBI have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees.

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

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

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

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

Foreign currency differences are recognized in other comprehensive income and presented in the "Cumulative translation adjustments" account in the consolidated statements of changes in equity. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the cumulative translation adjustments related to that foreign operation is reclassified to the consolidated statements of income as part of the gain or loss on disposal.

When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified in the consolidated statements of income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Cumulative translation adjustments" account in the consolidated statements of changes in equity.

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

Taxes
Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

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

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

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

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

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

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

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

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

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

Property, plant and equipment once classified as held for sale or distribution are not depreciated.

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

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

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

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income (loss) for the period attributable to equity holders of the Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the ESPP of the Company, which are assumed to be exercised at the date of grant.

Where the effect of the assumed conversion of shares issuable to employees and executives under the stock purchase plan of the Company would be anti-dilutive, diluted EPS is not presented.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 5 to the consolidated financial statements. The President (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

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

Rent income, recognized as part of "Other income (charges)" account in the consolidated statements of income, amounted to P1,394, P4,733 and P8,072 in 2016, 2015 and 2014, respectively (Notes 26 and 28).

Rent expense recognized in the consolidated statements of income amounted to P90,542, P145,102 and P153,827 in 2016, 2015 and 2014, respectively (Notes 6, 20, 21, 22 and 28).

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in TSML and TGT as joint ventures (Note 11).

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits amounted to P507,732 and P421,168 as of December 31, 2016 and 2015, respectively.

The carrying amounts of trade and other receivables, and noncurrent receivables and deposits amounted to P2,509,457 and P2,987,951 as of December 31, 2016 and 2015, respectively (Notes 8 and 14).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P391,756 and P317,669 as of December 31, 2016 and 2015, respectively (Note 9).

The carrying amount of inventories amounted to P3,034,586 and P3,090,271 as of December 31, 2016 and 2015, respectively (Note 9).

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

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

There are no changes in the estimated useful lives of property, plant and equipment and deferred containers as of December 31, 2016 and 2015.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P5,664,256 and P5,882,427 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P6,813,828 and P6,510,264 as of December 31, 2016 and 2015, respectively (Note 12).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P239,534 and P288,117 as of December 31, 2016 and 2015, respectively (Note 14).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

There are no changes in the useful lives of intangible assets as of December 31, 2016 and 2015.

Intangible assets, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P52,593 and P44,450 as of December 31, 2016 and 2015, respectively.

Accumulated amortization of intangible assets amounted to P65,251 and P50,609 as of December 31, 2016 and 2015, respectively (Note 14).

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

The carrying amount of goodwill amounted to P126,863 as of December 31, 2016 and 2015 (Note 13).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group recognized goodwill arising from an acquisition in 2012 (Note 13).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P821,094 and P810,305 as of December 31, 2016 and 2015, respectively (Note 18).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments in joint ventures, property, plant and equipment, intangible assets, deferred containers and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on investments in joint ventures and property, plant and equipment amounted to P493,800 and P393,800 as of December 31, 2016 and 2015, respectively (Notes 11 and 12).

The combined carrying amounts of investments in joint ventures, property, plant and equipment, intangible assets, deferred containers and idle assets amounted to P6,114,420 and P6,432,244 as of December 31, 2016 and 2015 respectively (Notes 11, 12 and 14).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 29 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P1,019,640 and P856,200 as of December 31, 2016 and 2015, respectively (Note 29).

Asset Retirement Obligation. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined that there are no significant ARO as of December 31, 2016 and 2015. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

5. Segment Information

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

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

The alcoholic segment produces and markets alcoholic beverages.

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

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

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

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

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

Financial information about operating segments follows:

	For the Years Ended December 31, 2016, 2015 and 2014								
	Alcoholic			Nonalcoholic (Note 6)			Total		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales	**P18,572,497**	P16,461,673	P14,875,418	**P -**	P165,899	P635,253	**P18,572,497**	P16,627,572	P15,510,671
Result									
Segment result	**P918,087**	P711,800	P526,079	**P -**	(P140,399)	(P166,075)	**P918,087**	P571,401	P360,004
Interest expense and other financing charges							**(395,754)**	(486,159)	(560,313)
Interest income							**23,359**	29,843	22,810
Equity in net losses of joint ventures							**(96,635)**	(109,667)	(66,265)
Other income (losses) - net							**59,641**	109,656	(1,687)
Income tax expense							**(147,313)**	(500,670)	(520,756)
Net Income (Loss)							**P361,385**	(P385,596)	(P766,207)
Other Information									
Segment assets	**P13,131,599**	P12,767,507	P13,823,283	**P -**	P70,901	P724,931	**P13,131,599**	P12,838,408	P14,548,214
Investments in joint ventures							**465,637**	524,850	659,488
Goodwill							**126,863**	126,863	226,863
Other noncurrent assets - net							**616,749**	1,452,964	1,489,673
Deferred tax assets							**821,094**	810,305	1,116,010
Consolidated Total Assets							**P15,161,942**	P15,753,390	P18,040,248
Segment liabilities	**P2,328,430**	P2,550,039	P2,431,314	**P -**	P47,239	P116,655	**P2,328,430**	P2,597,278	P2,547,969
Notes payable							**7,998,111**	8,406,460	10,084,440
Long-term debt - net of debt issue costs							**228,571**	342,857	457,143
Income and other taxes payable							**176,093**	303,068	308,509
Consolidated Total Liabilities							**P10,731,205**	P11,649,663	P13,398,061
Capital expenditures	**P381,925**	P232,742	P183,036	**P -**	P -	P29,851	**P381,925**	P232,742	P212,887
Depreciation and amortization							**638,124**	644,648	720,014
Noncash items other than depreciation							**241,999**	481,815	146,302

6. Discontinued Operation

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

	2014
Property and equipment	P193,941
Finished goods and other inventories	353,765
	P547,706

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 and 2014 are as follows:

	2015	2014
Sales	P73,031	P590,094
Cost of sales	61,967	413,173
Gross profit	11,064	176,921
Selling and marketing expenses	(65,176)	(323,149)
General and administrative expense	(11,593)	(45,148)
Gain on sale of property and equipment	37,334	192
Other income (charges) - net	(2,382)	186
Loss before income tax	(30,753)	(190,998)
Income tax benefit	(9,226)	(57,299)
Net loss	(P21,527)	(P133,699)
Basic and Diluted Loss Per Share	(P0.08)	(P0.47)

The net cash flows used in operating activities of NAB segment amounted to P3,137 and P2,756 in 2015 and 2014, respectively.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2016**	2015
Cash in banks and on hand		**P317,827**	P273,301
Short-term investments		**459,478**	172,500
	32, 33	**P777,305**	P445,801

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

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2016**	2015
Trade		**P1,728,594**	P2,104,004
Amounts owed by related parties	*27*	**838,300**	901,946
Non-trade	*31*	**285,673**	200,196
		2,852,567	3,206,146
Less allowance for impairment losses		**385,830**	324,361
	32, 33	**P2,466,737**	P2,881,785

Trade receivables are non-interest bearing and are generally on a 60 to 90-day term.

Non-trade receivables consist of the following: (i) subscription receivables amounting to P335 as of December 31, 2015; (ii) receivable from employees amounting to P11,233 and P16,471 as of December 31, 2016 and 2015, respectively; (iii) sale of raw materials amounting to P130,926 as of December 31, 2016 and 2015; (iv) tax certificate receivables amounting to P26,997 and P13,245 as of December 31, 2016 and 2015, respectively; and (v) miscellaneous receivables amounting to P116,517 and P39,219 as of December 31, 2016 and 2015, respectively. These are generally collectible on demand.

The movements in allowance for impairment losses are as follows:

	Note	**2016**	2015
Balance at beginning of year		**P324,361**	P189,274
Charges for the year	*22*	**102,482**	152,883
Amounts written off		**(41,013)**	(17,796)
Balance at end of year		**P385,830**	P324,361

The aging of receivables is as follows:

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

December 31, 2015	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P914,942	P18,385	P30,735	P964,062
Past due:				
1 - 30 days	652,173	5,800	3,547	661,520
31 - 60 days	152,970	7,607	13,640	174,217
61 - 90 days	15,376	208	4,057	19,641
Over 90 days	368,543	168,196	849,967	1,386,706
	P2,104,004	P200,196	P901,946	P3,206,146

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

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 32).

9. Inventories

Inventories consist of:

	2016	2015
At NRV:		
Finished goods	**P641,602**	P663,037
Materials and supplies	**2,347,381**	2,388,643
Containers	**45,603**	38,591
	P3,034,586	P3,090,271

The cost of finished goods and materials and supplies amounted to P3,380,739 and P3,369,349 as of December 31, 2016 and 2015, respectively.

The amount of inventories recognized as expense amounted to P12,378,809, P10,659,049 and P9,442,777 in 2016, 2015 and 2014, respectively (Note 20).

The write-down of inventories to net realizable value amounted to P104,451, P195,683 and P68,000 in 2016, 2015 and 2014, respectively (Note 20). The Group has written off inventories amounting to P30,364 and P15,918 in 2016 and 2015, respectively.

The accumulated amount of write-down of inventories amounted to P391,756 and P317,669 as of December 31, 2016 and 2015, respectively.

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2016**	2015
Prepaid taxes		**P1,423,035**	P1,420,333
Derivative assets	*32, 33*	**242**	430
Others		**73,038**	51,630
		P1,496,315	P1,472,393

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

11. Investments in Joint Ventures

a. TSML

GSMI, through GSMIL, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMIL owns 40% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

Through the acquisition by SHL of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group's share in TSML increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL, which has an existing loan agreement with SWL for the same amount.

Summarized financial information of TSML, as included in its own financial statements, and the reconciliation with the carrying amount of the investment are set out below:

	2016	2015	2014
Current assets (including cash and cash equivalents - 2016: P177,380, 2015: P199,953 and 2014: P103,873)	**P1,438,694**	P1,357,379	P1,282,143
Noncurrent assets	**1,318,574**	1,349,762	1,510,106
Current liabilities	**(40,513)**	(105,528)	(29,659)
Noncurrent liabilities	**(1,265,003)**	(1,240,700)	(1,293,798)
Net assets	**1,451,752**	1,360,913	1,468,792
Percentage of ownership	**44.9%**	44.9%	44.9%
Amount of investment in joint venture	**651,837**	611,050	659,488
Less: Allowance for impairment loss	**186,200**	86,200	-
Carrying amount of investment in joint venture	**P465,637**	P524,850	P659,488

	2016	2015	2014
Sales	**P1,321,523**	P1,195,033	P847,596
Cost of sales (including depreciation - 2016: P117,101; 2015: P111,751 and 2014: P114,843)	**(1,205,991)**	(1,120,469)	(866,195)
Operating expenses (including depreciation - 2016: P6,135, 2015: P5,606 and 2014: P4,630)	**(68,155)**	(71,435)	(72,070)
Other charges (including interest expense - 2016: P49,931, 2015: P58,494 and 2014: P58,054)	**(39,883)**	(55,393)	(56,914)
Net income (loss)	**7,494**	(52,264)	(147,583)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net income (loss)	**3,365**	(23,467)	(66,265)
Share in other comprehensive income (loss)	**37,422**	(24,971)	5,564
Total comprehensive income(loss)	**P40,787**	(P48,438)	(P60,701)

The recoverable amount of investment in TSML has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections is 9% in 2016 and 2015. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

As a result of decline in operations resulting in lower sales forecast compared with previous years, the Group recognized impairment losses amounting to P100,000 and P86,200 in 2016 and 2015 respectively, included as part of "Equity in Net Losses of Joint Ventures" account, in the consolidated statements of income. The recoverable amount of investment in TSML has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

b. TGT

GSMI, through GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, the Group's share in TGT increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL which has an existing loan agreement with SWL for the same amount.

Summarized financial information of TGT, as included in its own financial statements, and the reconciliation with the carrying amount of the investment are set out below:

	2016	2015	2014
Current assets (including cash and cash equivalents - 2016: P7,852, 2015: P26,126 and 2014: P80,571)	**P21,773**	P40,096	P95,262
Noncurrent assets	**5,525**	5,676	5,634
Current liabilities	**(818,482)**	(785,937)	(857,947)
Noncurrent liabilities	**(406)**	(299)	(136)
Net liabilities	**(791,590)**	(740,464)	(757,187)
Percentage of ownership	**44.9%**	44.9%	44.9%
Carrying amount of investment in joint venture	**(P355,424)**	(P332,468)	(P339,977)

	2016	2015	2014
Sales	**P105,252**	P77,141	P174,908
Cost of sales	**(91,526)**	(68,359)	(157,805)
Operating expenses (including depreciation - 2016: P44, 2015: P151 and 2014: P158)	**(16,854)**	(23,986)	(41,314)
Other income	**112**	850	695
Net loss	**(3,016)**	(14,354)	(23,516)
Percentage of ownership	**44.9%**	44.9%	44.9%
Share in net loss	**(1,354)**	(6,445)	(10,559)
Share in other comprehensive income (loss)	**(21,601)**	(13,954)	2,463
Total comprehensive loss	**(P22,955)**	(P20,399)	(P8,096)

The Group discontinued recognizing its share in the net liabilities of TGT since the cumulative losses including the share in other comprehensive loss already exceed the cost of investment. If TGT reports profits subsequently, the Group resumes recognizing its share of those profits after its share of the profits equals the share of net losses not recognized. Unrecognized share in net liabilities amounted to P355,424 and P332,468 as of December 31, 2016 and 2015, respectively.

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2015	P727,747	P2,527,146	P212,907	P8,562,185	P876,697	P141,652	P81,912	P13,130,246
Additions	11	-	-	122	2,274	-	230,336	232,743
Disposals/reclassifications	33,487	(663,489)	9,787	(256,968)	39,609	(1,661)	(131,063)	(970,298)
December 31, 2015	761,245	1,863,657	222,694	8,305,339	918,580	139,991	181,185	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	**775,636**	**2,073,097**	**229,721**	**8,285,526**	**879,740**	**142,483**	**91,881**	**12,478,084**
Accumulated Depreciation and Amortization								
January 1, 2015	177,069	895,091	173,163	4,981,817	633,408	25,272	-	6,885,820
Depreciation and amortization	4,168	56,682	22,362	392,843	85,906	5,648	-	567,609
Disposals/reclassifications	-	(43,818)	616	(902,519)	2,645	(89)	-	(943,165)
December 31, 2015	181,237	907,955	196,141	4,472,141	721,959	30,831	-	6,510,264
Depreciation and amortization	4,899	62,368	18,266	421,991	68,613	5,223	-	581,360
Disposals/reclassifications	7	(62)	(34,455)	(179,462)	(63,824)	-	-	(277,796)
December 31, 2016	**186,143**	**970,261**	**179,952**	**4,714,670**	**726,748**	**36,054**	-	**6,813,828**
Accumulated Impairment Losses								
December 31, 2015 and 2016	-	-	-	**307,600**	-	-	-	**307,600**
Carrying Amount								
December 31, 2015	P580,008	P955,702	P26,553	P3,525,598	P196,621	P109,160	P181,185	P5,574,827
December 31, 2016	**P589,493**	**P1,102,836**	**P49,769**	**P3,263,256**	**P152,992**	**P106,429**	**P91,881**	**P5,356,656**

The carrying amounts of unutilized machinery and equipment, net of accumulated impairment losses of P307,600 in 2016 and 2015, amounted to P16,185 and P55,764 as of December 31, 2016 and 2015, respectively.

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

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

In 2015, the Group sold certain property located in Calumpit, Bulacan and Tagoloan, Misamis Oriental for P139,658. The Group recognized a gain amounting to P125,531, included as part of "Gain on sale of property and equipment" account in the 2015 consolidated statement of income.

Depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P581,360, P567,609 and P616,065 in 2016, 2015 and 2014, respectively (Notes 6 and 23). These amounts include annual amortization of capitalized interest amounting to P12,319, P12,072 and P11,841 in 2016, 2015 and 2014, respectively.

Interest amounting to P4,847, P2,471, and P2,310 were capitalized to machinery and equipment in 2016, 2015, and 2014, respectively (Note 25). The capitalization rates used to determine the amount of interest eligible for capitalization were 4.03%, 4.35% and 4.88% in 2016, 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P46,164 and P53,636 as of December 31, 2016 and 2015, respectively.

13. Goodwill

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

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged to 9% in 2016 and 2015. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. As a result of decline in operations resulting in lower sales forecast compared with previous years, the Group recognized impairment loss amounting to P100,000 in 2015 (Note 26). The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

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

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

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

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

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2016**	2015
Deferred containers - net		**P239,534**	P288,117
Intangible assets		**52,593**	44,450
Noncurrent receivables and deposits - net	*27, 32, 33*	**42,720**	106,166
Others		**281,902**	269,118
		P616,749	P707,851

Noncurrent receivables and deposits - net include: (i) trade receivables referred to legal and receivables from terminated dealers amounting to P33,594 as of December 31, 2015, net of allowance for impairment losses amounting to P121,902 and P96,807 as of December 31, 2016 and 2015, respectively. Provision for impairment losses amounted to P35,818 and P31,169 in 2016 and 2015, respectively (Note 22). The Group has written-off receivables amounting to P10,723 and P292 in 2016 and 2015, respectively; and (ii) security deposits to related parties amounting to P485 as of December 31, 2016 and 2015 (Note 27).

The movements in intangible assets are as follows:

	2016	2015
Cost		
Balance at beginning of year	**P95,059**	P47,106
Additions	**22,785**	47,953
Balance at end of year	**117,844**	95,059
Accumulated Amortization		
Balance at beginning of year	**50,609**	43,316
Amortization	**14,642**	7,293
Balance at end of year	**65,251**	50,609
Carrying Amount	**P52,593**	P44,450

Amortization expense, included as part of "General and administrative expenses" account in the consolidated statements of income, amounted to P14,642 and P7,293 in 2016 and 2015, respectively (Note 22).

Others include: (i) input taxes on the acquisition of capitalizable assets amounting to P17,756 and P4,972 as of December 31, 2016 and 2015, respectively; and (ii) advances for a project that is temporarily put on hold amounting to P264,146 as of December 31, 2016 and 2015.

15. Notes Payable

This account consists of unsecured short-term peso-denominated borrowings obtained from local banks for working capital requirements. These loans mature in three months or less and bear annual interest rates ranging from 2% to 5% and 2% to 4.75% in 2016 and 2015, respectively.

Interest expense on notes payable recognized in the consolidated statements of income amounted to P346,443, P423,187 and P447,255 in 2016, 2015 and 2014, respectively (Note 25).

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

16. Trade and Other Payables

Trade and other payables consist of:

	Note	**2016**	2015
Trade		**P1,262,309**	P1,706,869
Amounts owed to related parties	*27*	**631,740**	529,052
Derivative liabilities	*32, 33*	**2,403**	128
	32, 33	**P1,896,452**	P2,236,049

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

17. Long-term Debt

Long-term debt consists of:

	Note	**2016**	2015
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018		**P228,571**	P342,857
Less current maturities		**114,286**	114,286
	32, 33	**P114,285**	P228,571

GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to P800,000. The proceeds of the loan was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

The loan is payable up to nine years from and after the initial date of borrowing, but in no case later than September 30, 2018 (expiry date of memorandum of agreement), inclusive of a grace period of two years on principal repayment. The loan is payable in equal quarterly installments on the Principal Repayment Dates which commenced on February 18, 2012.

EPSBPI agrees to pay interest on the outstanding principal amount of borrowings on each interest payment date ending per annum equivalent to the higher of benchmark rate plus a spread of one percent or the overnight rate. Benchmark rate is the three-month PDST-F rate as displayed in the Philippine Dealing and Exchange Corporation page on the first day of each interest period. While overnight rate means the Bangko Sentral ng Pilipinas overnight reverse repo rate on interest rate settling date.

Interest expense on long-term borrowings amounted to P11,257, P17,207 and P66,660 in 2016, 2015 and 2014, respectively (Note 25).

Repayment Schedule
The annual maturities are as follows:

Year	Gross Amount
2017	P114,286
2018	114,285
	P228,571

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

18. Income Taxes

Deferred tax assets arise from the following:

	2016	2015
Items recognized in profit or loss		
NOLCO	**P -**	P157,639
MCIT	**253,866**	165,094
Provision for impairment losses	**277,167**	251,198
Allowance for write-down of inventories	**117,527**	95,301
Past service costs	**39,702**	30,472
Various accruals	**16,664**	17,788
Derivative liabilities (assets) - net	**649**	(90)
Unrealized foreign exchange loss (gain) - net	**(225)**	625
Unamortized capitalized borrowing costs	**(13,849)**	(16,090)
Net defined benefit retirement surplus	**(14,135)**	(4,589)
	677,366	697,348
Items recognized directly in other comprehensive income		
Equity reserve for retirement plan	**143,728**	112,957
	P821,094	P810,305

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

	2016	2015
Amount charged to profit or loss	**(P19,982)**	(P360,516)
Amount charged to other comprehensive income	**30,771**	54,811
	P10,789	(P305,705)

As of December 31, 2016, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred	NOLCO	Expired	Utilized	Balance	Expiry Year
2013	P1,508,367	(P819,988)	(P688,379)	P -	2016
2014	18,085	-	-	18,085	2017
2015	9,926	-	-	9,926	2018
	P1,536,378	(P819,988)	(P688,379)	P28,011	

Year Paid	MCIT	Expired	Balance	Expiry Year
2013	P57,903	(P57,903)	P -	2016
2014	78,128	-	78,128	2017
2015	88,227	-	88,227	2018
2016	88,978	-	88,978	2019
	P313,236	(P57,903)	P255,333	

As of December 31, 2016, deferred tax asset has not been recognized in respect of NOLCO and MCIT amounting to P28,011 and P1,126, respectively, as management believes it is not probable that future taxable income will be available against which the Group can utilize the benefit therefrom.

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

	2016	2015	2014
Current	**P127,331**	P149,380	P105,102
Deferred	**19,982**	360,516	472,953
	P147,313	P509,896	P578,055

The income tax expense from continuing operations exclude the Group's share of the income tax benefit from the discontinued operation of P9,226 and P57,299 in 2015 and 2014, respectively, which have been included in loss from discontinued operation, net of tax (Note 6).

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

	2016	2015	2014
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(0.12%)**	(0.82%)	(0.12%)
Others	**(0.92%)**	320.48%	(1,091.45%)
Effective income tax rate	**28.96%**	349.66%	(1,061.57%)

19. Equity

a. *Capital Stock*

Common Shares

The Company has 460,000,000 authorized common shares with par value of P1 per share and offer price of P12.70 and P12.28 as of December 31, 2016 and 2015, respectively.

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

The Company has a total of 722 and 728 stockholders as of December 31, 2016 and 2015, respectively.

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

	2016	2015
Issued shares	**345,625,332**	345,625,332
Less treasury shares	**59,297,491**	59,297,491
Outstanding shares	**286,327,841**	286,327,841

Preferred Shares

The Company has 100,000,000 authorized preferred shares with par value of P1 per share as of December 31, 2016 and 2015.

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

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

	2016	2015
Issued shares	**53,437,585**	53,437,585
Less treasury shares	**20,650,700**	20,650,700
Outstanding shares	**32,786,885**	32,786,885

b. *Treasury Shares*

Treasury shares consist of:

	2016	2015	2014
Common	**59,297,491**	59,297,491	59,297,491
Preferred	**20,650,700**	20,650,700	20,650,700
	79,948,191	79,948,191	79,948,191

The movements in the number of common shares held in treasury are as follows:

	2016	2015	2014
Number of shares at beginning of year	**59,297,491**	59,297,491	55,549,391
Cancellation of ESPP	**-**	-	3,748,100
Number of shares at end of year	**59,297,491**	59,297,491	59,297,491

c. *Unappropriated Retained Earnings*

No dividends were declared in 2016, 2015 and 2014.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net losses of joint ventures amounting to P239,940, P254,350 and P272,329 in 2016, 2015 and 2014, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The unappropriated retained earnings of the Group is restricted in the amount of P2,669,973 in 2016, 2015 and 2014, representing the cost of common and preferred shares held in treasury.

d. *Appropriated Retained Earnings*

As of December 31, 2016 and 2015, the Company's BOD approved the appropriation of retained earnings amounting to P2,500,000 for the purpose of capital investment for the expansion of the plant facilities, including but not limited to equipment rehabilitation, to accommodate new product line and the increase in volume requirements in the next three to five years.

20. Cost of Sales

Cost of sales consist of:

	Note	**2016**	2015	2014
Inventories	*9*	**P12,378,809**	P10,659,049	P9,442,777
Utilities and supplies		**479,843**	487,832	615,674
Depreciation and amortization	*12, 23*	**306,366**	302,378	300,250
Outside services	*34*	**211,343**	174,456	224,111
Personnel	*24, 29*	**186,086**	156,404	145,209
Repairs and maintenance		**157,873**	153,173	96,480
Write-down of inventories to net realizable value	*9*	**104,451**	195,683	68,000
Rent	*28*	**37,936**	31,759	35,956
Insurance		**5,796**	6,668	4,203
Others		**18,262**	14,362	14,655
		P13,886,765	P12,181,764	P10,947,315

21. Selling and Marketing Expenses

Selling and marketing expenses consist of:

	Note	2016	2015	2014
Advertising and promotions		**P877,756**	P802,064	P727,348
Delivery and marketing		**522,558**	493,805	544,831
Personnel	*24, 29*	**219,973**	212,841	181,475
Outside services		**68,330**	88,467	94,198
Rent	*28*	**46,893**	69,737	58,258
Depreciation and amortization	*12, 23*	**42,903**	40,886	28,265
Corporate special program		**38,909**	24,943	15,859
Utilities and supplies		**35,557**	39,905	54,205
Travel and transportation		**31,468**	27,178	19,863
Repairs and maintenance		**28,846**	31,410	24,078
Others		**10,888**	11,472	11,030
		P1,924,081	P1,842,708	P1,759,410

22. General and Administrative Expenses

General and administrative expenses consist of:

	Note	2016	2015	2014
Personnel	*24, 29*	**P733,735**	P648,612	P571,237
Depreciation and amortization	*12, 14, 23*	**288,855**	289,791	296,933
Outside services	*27*	**248,981**	273,961	272,915
Taxes and licenses		**155,103**	184,596	146,571
Provision for impairment losses	*8, 14*	**138,300**	184,052	81,080
Insurance		**71,388**	82,499	84,035
Repairs and maintenance		**68,613**	56,755	25,916
Utilities and supplies		**37,803**	34,974	34,896
Corporate special program		**31,890**	35,274	37,163
Research		**30,792**	33,142	30,443
Travel and transportation		**27,832**	22,639	19,947
Rent	*28*	**5,713**	40,440	52,255
Others		**5,902**	6,228	9,081
		P1,844,907	P1,892,963	P1,662,472

23. Depreciation and Amortization

Depreciation and amortization from continuing operations consist of:

	Note	2016	2015	2014
Property, plant and equipment	*12*	**P581,360**	P567,609	P566,648
Pallets		**42,122**	58,153	45,982
Intangible assets	*14*	**14,642**	7,293	12,818
		P638,124	P633,055	P625,448

Depreciation and amortization from continuing operations are distributed as follows:

	Note	2016	2015	2014
Cost of sales	20	**P306,366**	P302,378	P300,250
Selling and marketing expenses	21	**42,903**	40,886	28,265
General and administrative expenses	22	**288,855**	289,791	296,933
		P638,124	P633,055	P625,448

24. Personnel Expenses

Personnel expenses from continuing operations consist of:

	Note	2016	2015	2014
Salaries and wages		**P741,991**	P664,133	P587,382
Other employee benefits		**333,380**	297,488	252,043
Retirement costs - net	29	**64,423**	56,236	58,496
		P1,139,794	P1,017,857	P897,921

Personnel expenses from continuing operations are distributed as follows:

	Note	2016	2015	2014
Cost of sales	20	**P186,086**	P156,404	P145,209
Selling and marketing expenses	21	**219,973**	212,841	181,475
General and administrative expenses	22, 27	**733,735**	648,612	571,237
		P1,139,794	P1,017,857	P897,921

25. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2016	2015	2014
Interest on notes payable	15	**P346,443**	P423,187	P447,255
Interest on long-term debt	17	**11,257**	17,207	66,660
Other financing charges		**42,901**	48,236	48,708
Capitalized borrowing costs	12	**(4,847)**	(2,471)	(2,310)
		P395,754	P486,159	P560,313

26. Other Income (Charges)

Other income (charges) consist of:

	Note	**2016**	2015	2014
Tolling fees		**P31,918**	P24,942	P10,270
Gain on sale of scrap materials		**27,200**	24,742	29,360
Rent income	*28*	**1,394**	4,733	8,072
Net unrealized foreign exchange gain (loss)		**752**	(2,081)	2,778
Loss on sale of molasses and alcohol		**-**	-	(46,343)
Provision for impairment losses	*13*	**-**	(100,000)	-
Net derivative loss	*33*	**(6,111)**	(702)	(2,459)
Others		**4,488**	(2,519)	(3,654)
		P59,641	(P50,885)	(P1,976)

27. Related Party Disclosures

The Group purchase 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 December 31:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	**2016**	**P6,479**	**P229,512**	**P3,291**	**P46,805**	On demand;	Unsecured;
	2015	8,246	264,803	4,905	40,031	non-interest	no impairment
	2014	10,913	263,184	23,399	95,998	bearing	
Under Common Control	**2016**	**265,039**	**3,385,938**	**197,950**	**556,180**	On demand;	Unsecured;
	2015	576,005	3,422,989	233,585	489,021	non-interest	no impairment
	2014	249,456	3,088,207	233,413	553,259	bearing	
Joint Venture	**2016**	**-**	**-**	**637,544**	**230**	On demand;	Unsecured;
	2015	-	-	663,941	-	interest	no impairment
	2014	-	-	663,941	-	bearing	
Retirement Plan	**2016**	**-**	**-**	**-**	**28,525**	On demand;	Unsecured;
	2015	-	-	-	-	interest	no impairment
	2014	-	-	-	-	bearing	
Associates of the Parent Company	**2016**	**-**	**-**	**-**	**2,684,800**	3 months;	Unsecured
	2015	-	-	-	887,200	Interest	
	2014	-	-	-	3,047,665	Bearing	
Total	**2016**	**P271,518**	**P3,615,450**	**P838,785**	**P3,316,540**		
Total	2015	P584,251	P3,687,792	P902,431	P1,416,252		
Total	2014	P260,369	P3,351,391	P920,753	P3,696,922		

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

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

c. Management fees amounting to P167,940, P189,343 and P181,825 in 2016, 2015 and 2014, respectively, are included in "Outside services" account under "General and administrative expenses" (Note 22).

d. Security deposits amounted to P485 as of December 31, 2016 and 2015, are included as part of "Noncurrent receivables and deposits - net" under "Other noncurrent assets - net" account in the consolidated statements of financial position (Note 14).

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

   - Principal sum of THB250,000,000 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
   - Principal sum of THB50,000,000 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
   - Principal sum of THB25,000,000 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
   - Principal sum of THB75,000,000 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
   - Principal sum of THB75,000,000 together with interest of 3.0% per annum, which interest shall accrue on April 7, 2011.

   The principal sum is due and payable in full on demand of the Company and the stipulated interest shall be payable every three months.

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

   Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to P21,220, P26,650 and P19,796 in 2016, 2015 and 2014, respectively.

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

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

	Note	**2016**	2015	2014
Short-term employee benefits		**P47,728**	P43,401	P35,874
Retirement costs	*29*	**8,272**	6,540	6,215
		P56,000	P49,941	P42,089

28. Leasing Agreements

Operating Leases

Group as Lessor

a. The Company had a lease agreement with a related party for the lease of land in Cabuyao, Laguna for a period of three years from February 1, 2013 to January 31, 2016. Rental fee amounted to P194 per month. No renewal of the agreement was made during the year.

b. The Company also had another existing lease agreement with a related party for the lease of land in Sta. Barbara, Pangasinan for a period of three years from July 1, 2013 to June 30, 2016. Rental fee amounted to P200 per month. No renewal of the agreement was made during the year.

Rent income recognized in the consolidated statements of income amounted to P1,394, P4,733 and P8,072 in 2016, 2015 and 2014, respectively (Note 26).

Group as Lessee

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

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

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

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
Within one year	**P3,611**	P4,234
After one year but not more than five years	**3,809**	7,420
	P7,420	P11,654

Rent expense recognized in the consolidated statements of income amounted to P90,542, P145,102 and P153,827 in 2016, 2015 and 2014, respectively (Notes 6, 20, 21 and 22).

29. Retirement Plans

The Company and DBI have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Group pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2016. Valuations are obtained on a periodic basis.

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

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Obligation		Net Defined Benefit Retirement Liability	
	2016	2015	**2016**	2015	**2016**	2015
Balance at beginning of year	**P494,971**	P544,913	**(P856,200)**	(P763,689)	**(P361,229)**	(P218,776)
Recognized in profit or loss						
Service costs	-	-	**(47,350)**	(46,097)	**(47,350)**	(46,097)
Interest expense	-	-	**(44,303)**	(36,313)	**(44,303)**	(36,313)
Interest income	**27,230**	25,584	-	-	**27,230**	25,584
	27,230	25,584	**(91,653)**	(82,410)	**(64,423)**	(56,826)
Recognized in other comprehensive income						
Remeasurements:						
Actuarial gains (losses) arising from:						
Experience adjustments	-	-	**(106,855)**	(123,240)	**(106,855)**	(123,240)
Changes in financial assumptions	-	-	**122**	4,073	**122**	4,073
Changes in demographic assumptions	-	-	**5,434**	-	**5,434**	-
Return on plan assets excluding interest	**(1,269)**	(63,537)	-	-	**(1,269)**	(63,537)
	(1,269)	(63,537)	**(101,299)**	(119,167)	**(102,568)**	(182,704)
Others						
Contributions	**96,242**	97,077	-	-	**96,242**	97,077
Benefits paid	**(29,512)**	(109,066)	**29,512**	109,066	-	-
	66,730	(11,989)	**29,512**	109,066	**96,242**	97,077
Balance at end of year	**P587,662**	P494,971	**(P1,019,640)**	(P856,200)	**(P431,978)**	(P361,229)

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

Retirement costs recognized in the consolidated statements of income by GSMI amounted to P59,197, P52,143 and P56,697 in 2016, 2015 and 2014, respectively, while those charged by DBI amounted to P5,226, P4,683 and P4,381 in 2016, 2015 and 2014, respectively.

The retirement costs are recognized in the following line items:

	Note	**2016**	2015	2014
Cost of sales	*20*	**P9,487**	P8,048	P8,173
Selling and marketing expenses	*21*	**11,163**	10,987	12,494
General and administrative expenses	*22*	**43,773**	37,791	40,411
		P64,423	P56,826	P61,078

Retirement liabilities recognized by GSMI amounted to P410,844 and P342,617 as of December 31, 2016 and 2015, respectively, while those recognized by DBI amounted to P21,134 and P18,612 as of December 31, 2016 and 2015, respectively.

The carrying amounts of the Group's retirement plan approximate fair values as of December 31, 2016 and 2015.

The Group's plan assets consist of the following:

	In Percentages	
	2016	2015
Fixed income portfolio	**40**	42
Investments in marketable securities	**30**	28
Stock trading portfolio	**25**	26
Others	**5**	4
	100	100

Investments in Marketable Securities

The plan assets include 13,843,321 and 11,443,321 common shares of the Company with fair market value per share of P12.70 and P12.28 as of December 31, 2016 and 2015, respectively.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized gains (losses) on the investment in marketable securities of SMC and its subsidiaries amounting to P2,792 and (P36,180) in 2016 and 2015, respectively.

There was no dividend income recognized in 2016 and 2015.

Investments in Pooled Funds

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

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

Approximately 8.32% and 6.63% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2016 and 2015, respectively.

Approximately 10.81% and 10.84% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2016 and 2015, respectively.

Others

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

The Retirement Plans Trustee has no specific matching strategy between the plan assets and the plan liabilities.

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

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

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

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

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

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

	In Percentages	
	2016	2015
Discount rate	**4.84 - 5.23**	4.54 - 5.24
Salary increase rate	**7.00**	7.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation is 2.15 years and 2.25 years as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the reasonably or possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2016		2015	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P9,434)**	**P10,176**	(P9,026)	P9,750
Salary increase rate	**8,389**	**(7,956)**	8,187	(7,760)

In 2016 and 2015, the Group's transaction relating to the Retirement Plans pertain to the contributions for the period. The outstanding payables of the Group with the plan assets amounted to P28,525 as of December 31, 2016.

30. Basic and Diluted Earnings (Loss) Per Share

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

	2016	2015			2014		
	Continuing Operations	Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income (loss)	**P361,385**	(P364,069)	(P21,527)	(P385,596)	(P632,508)	(P133,699)	(P766,207)
Less: Dividends on preferred shares	**49,180**	49,180	-	49,180	49,180	-	49,180
Net income (loss) available to common shares (a)	**P312,205**	(P413,249)	(P21,527)	(P434,776)	(P681,688)	(P133,699)	(P815,387)
Weighted average number of common shares outstanding (in thousands) - basic and diluted (b)	**286,328**	286,328	286,328	286,328	287,577	287,577	287,577
Basic and Diluted Earnings (Loss) Per Share (a/b)	**P1.09**	(P1.44)	(P0.08)	(P1.52)	(P2.37)	(P0.47)	(P2.84)

31. Share-Based Transactions

ESPP
Under the ESPP, 3,000,000 shares (inclusive of stock dividends declared) of the Company's unissued shares have been reserved for the employees of the Company. All permanent Philippine-based employees of the Company, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

Subscriptions receivable amounted to P335 as of December 31, 2015 presented as part of "Trade and other receivables" account in the consolidated statements of financial position (Note 8).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock.

There were no shares offered under the ESPP in 2016 and 2015. The shares covered by the ESPP are no longer available for subscription as the offering period provided under the said plan expired on January 21, 2013.

32. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies
The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, short-term and long-term loans and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits and trade and other payables arise directly from and are used to facilitate its daily operations.

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

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the 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 Committee shall also prepare the 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.

<u>Interest Rate Risk</u>
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 P2,913, P9,284 and P5,221 in 2016, 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

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

December 31, 2015	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Floating Rate						
Philippine peso-denominated Interest rate	P114,286 PDST-F+ margin or BSP overnight rate, whichever is higher	P114,286 PDST-F+ margin or BSP overnight rate, whichever is higher	P114,285 PDST-F+ margin or BSP overnight rate, whichever is higher	P -	P -	P342,857
	P114,286	P114,286	P114,285	P -	P -	P342,857

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:

	December 31, 2016		December 31, 2015	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$384**	**P19,124**	US$193	P9,102
Trade and other receivables	**243**	**12,075**	187	8,814
Foreign currency-denominated monetary assets	**US$627**	**P31,199**	US$380	P17,916

The Group reported net gains (loss) on foreign exchange from continuing and discontinued operations amounted to P752, (P2,081) and P2,778 in 2016, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets (Notes 6 and 26). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2016	**49.72**
December 31, 2015	47.06
December 31, 2014	44.72

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2016	**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**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2015	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	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 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 normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

December 31, 2016	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**
Financial Assets					
Cash and cash equivalents	**P777,305**	**P777,305**	**P777,305**	**P -**	**P -**
Trade and other receivables - net	**2,466,737**	**2,466,737**	**2,466,737**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**242**	**242**	**242**	**-**	**-**
Noncurrent receivables and deposits (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 and derivative liabilities)	**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**	**-**

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	P445,801	P445,801	P445,801	P -	P -
Trade and other receivables - net	2,881,785	2,881,785	2,881,785	-	-
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)	106,166	106,166	-	105,681	485
Financial Liabilities					
Notes payable	8,406,460	8,458,827	8,458,827	-	-
Trade and other payables (excluding dividends payable and derivative liabilities)	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	365,318	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.

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

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

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

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

	Note	**2016**	2015
Cash and cash equivalents (excluding cash on hand)	7	**P775,353**	P443,055
Trade and other receivables - net	8	**2,466,737**	2,881,785
Derivative assets	10	**242**	430
Noncurrent receivables and deposits	14	**42,720**	106,166
		P3,285,052	P3,431,436

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 the external environment and the risks underlying the Group's business, operation and industry.

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

The Group is not subject to externally imposed capital requirements.

33. Financial Assets and Financial Liabilities

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P777,305**	**P777,305**	P445,801	P445,801
Trade and other receivables - net	**2,466,737**	**2,466,737**	2,881,785	2,881,785
Derivative assets (included under "Prepaid expenses and other current assets" account)	**242**	**242**	430	430
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**42,720**	**42,720**	106,166	106,166
Financial Liabilities				
Notes payable	**7,998,111**	**7,998,111**	8,406,460	8,406,460
Trade and other payables (excluding dividends payable and derivative liabilities)	**1,888,803**	**1,888,803**	2,230,667	2,230,667
Derivative liabilities (included under "Trade and other payables" account)	**2,403**	**2,403**	128	128
Long-term debt (including current maturities)	**228,571**	**228,571**	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 4% and 2.5% to 4.3% as of December 31, 2016 and 2015, 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$4,339 and US$4,658 as of December 31, 2016 and 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 (P2,161) and P302 as of December 31, 2016 and 2015, respectively.

The Group recognized marked-to-market losses from embedded derivatives amounting to P6,111, P702 and P2,459 in 2016, 2015 and 2014, respectively (Note 26).

Fair Value Changes on Derivatives

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

	2016	2015
Balance at beginning of year	**P302**	(P308)
Net change in fair value of non-accounting hedges	**(6,111)**	(702)
	(5,809)	(1,010)
Less fair value of settled instruments	**(3,648)**	(1,312)
Balance at end of year	**(P2,161)**	P302

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

The table below analyzes financial instruments carried at fair value, by valuation method:

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P242**	**P242**	P -	P430	P430
Financial Liabilities						
Derivative liabilities	**-**	**2,403**	**2,403**	-	128	128

The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2016 and 2015. In 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

34. Other Matters

a. *Commitments*

The outstanding purchase commitments of the Company amounted to US$70,357 (P3,498,168), US$105,225 (P4,951,885) and US$19,837 (P887,113) as of December 31, 2016, 2015 and 2014, respectively (Note 32).

b. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outstanding of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group. No provision was recognized in 2016, 2015 and 2014.

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

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SHAREHOUSE SERVICES AND ASSISTANCE

The SMC Stock Transfer Services Corporation serves as the Company's stock transfer agent and registrar. For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificate, please write or call:

SMC STOCK TRANSFER SERVICE CORPORATION

2nd Floor, SMC Head Office
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Telephone: (632) 632-3450 to 52
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CUSTOMER CARE

For inquiries, orders and suggestions on our products and services, please write or call:

SAN MIGUEL CUSTOMER CARE CENTER

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