

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended  
Sep 30, 2015
2. SEC Identification Number  
142312
3. BIR Tax Identification No.  
000-083-856-000
4. Exact name of issuer as specified in its charter  
GINEBRA SAN MIGUEL INC.
5. Province, country or other jurisdiction of incorporation or organization  
PHILIPPINES
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
3rd and 6th Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center,  
Mandaluyong City, Philippines  
Postal Code  
1550
8. Issuer's telephone number, including area code  
(+632) 841-5100
9. Former name or former address, and former fiscal year, if changed since last report  
N.A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON SHARES	286,327,841
PREFERRED SHARES	32,786,885
11. Are any or all of registrant's securities listed on a Stock Exchange?  
Yes      No  
If yes, state the name of such stock exchange and the classes of securities listed therein:  
PHILIPPINE STOCK EXCHANGE - Common
12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



## Ginebra San Miguel, Inc. GSMI

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

For the period ended	Sep 30, 2015
Currency (indicate units, if applicable)	Php (in thousands)

#### Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2015	Dec 31, 2014
Current Assets	8,149,073	8,522,858
Total Assets	17,295,024	17,951,691
Current Liabilities	12,199,637	12,747,871
Total Liabilities	12,675,556	13,309,504
Retained Earnings/(Deficit)	4,572,561	4,563,358
Stockholders' Equity	4,619,468	4,642,187
Stockholders' Equity - Parent	4,420,039	4,291,029
Book Value per Share	14.48	14.55

#### Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Operating Revenue	4,034,298	3,571,415	11,413,779	10,175,906
Other Revenue	45,370	38,421	72,070	33,227
Gross Revenue	4,079,668	3,609,836	11,485,849	10,209,133
Operating Expense	3,895,253	3,515,943	10,977,025	9,941,548
Other Expense	151,109	155,419	417,882	482,022
Gross Expense	4,046,362	3,671,362	11,394,907	10,423,570
Net Income/(Loss) Before Tax	33,306	-61,526	90,942	-214,437
Income Tax Expense	29,525	6,140	57,185	-23,556
Net Income/(Loss) After Tax	3,781	-67,666	33,757	-190,881
Net Income Attributable to Parent Equity Holder	22,440	-59,582	10,172	-148,483
Earnings/(Loss) Per Share (Basic)	-0.03	-0.36	-0.1	-1.09
Earnings/(Loss) Per Share (Diluted)	-0.03	-0.36	-0.1	-1.09

#### Other Relevant Information

Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended September 30, 2015. Income Statement, except Earnings Per Share, is for continuing operations only. Amounts in thousand pesos, except per share data.

#### Filed on behalf by:

Name	Conchita Jamora
Designation	General Counsel and Assistant Corporate Secretary



November 13, 2015

**The Philippine Stock Exchange, Inc.**

Disclosure Department  
3<sup>rd</sup> Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

Attention: **Ms. Janet A. Encarnacion**  
Head-Disclosure Department

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended September 30, 2015, which we filed with the Securities and Exchange Commission today.

Very truly yours,

**Virgilio S. Jacinto**  
Corporate Secretary

**GINEBRA SAN MIGUEL INC.**

3<sup>rd</sup> and 6<sup>th</sup> Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City, Metro Manila, Philippines 1550  
Telephone: (02) 841-5100 Fax: (02) 643-2211

A Subsidiary of:  **SAN MIGUEL CORPORATION**



111132015002046

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines

Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

**Barcode Page****The following document has been received:****Receiving Officer/Encoder** : Mark Anthony R. Osená**Receiving Branch** : SEC Head Office**Receipt Date and Time** : November 13, 2015 04:29:13 PM**Received From** : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No. 0000142312

Company Name GINEBRA SAN MIGUEL, INC.

Industry Classification

Company Type Stock Corporation

**Document Information**

Document ID 111132015002046

Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

Document Code 17-Q

Period Covered September 30, 2015

No. of Days Late 0

Department CFD

Remarks



RECEIVING COPY

COVER SHEET

1	4	2	3	1	2										
---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--

S. E. C. Registration Number

G	I	N	E	B	R	A									
---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--

S	A	N		M	I	G	U	E	L						
---	---	---	--	---	---	---	---	---	---	--	--	--	--	--	--

I	N	C	.												
---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--

(Company's Full Name)

3 <sup>rd</sup>		a	n	d		6 <sup>th</sup>		F	l	o	o	r	s	,		S	a	n
-----------------	--	---	---	---	--	-----------------	--	---	---	---	---	---	---	---	--	---	---	---

M	i	g	u	e	l		P	r	o	p	e	r	t	i	e	s		
---	---	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	--	--

C	e	n	t	r	e	,		S	t	.		F	r	a	n	c	i	s
---	---	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---

S	t	r	e	e	t	,		O	r	t	i	g	a	s				
---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	--	--	--	--

C	e	n	t	e	r	,		M	a	n	d	a	l	u	y	o	n	g
---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---

C	i	t	y															
---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

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

Cynthia M. Baroy
------------------

Contact Person

(632) 841-5100
----------------

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

SEC FORM 17-Q (3<sup>rd</sup> Qtr 2015)

FORM TYPE

--	--

Month

--	--

Day

Annual Meeting

--

Secondary License Type, If Applicable

--	--	--

Dept. Requiring this Doc.

--

Amended Articles Number/Section

--

Total No. of Stockholders

Total Amount of Borrowings

--

Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

File Number

LCU

--	--	--	--	--	--	--	--	--	--

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

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

1. For the quarterly period ended **September 30, 2015**
2. Commission identification number **142312** 3. BIR Tax Identification No. **000-083-856**
3. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL INC.**

**PHILIPPINES**

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

6. Industry Classification Code:  (SEC use only)

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

7. Address of issuer's principal office

**1550**  
Postal Code

**(632) 841-5100**

8. Issuer's telephone number, including area code

**N.A.**

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

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

**Outstanding Capital Stock and Amount of Debt  
Outstanding as of September 30, 2015**

**COMMON SHARES  
PREFERRED SHARES**

**286,327,841  
32,786,885  
319,114,726**

**TOTAL LIABILITIES**

**Php 12,675,556,172**

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

Yes [ / ] No [ ]

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

**PHILIPPINE STOCK EXCHANGE**

-

**Common**

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

The unaudited consolidated financial statements of Ginebra San Miguel, Inc. and its subsidiaries as of and for the period ended September 30, 2015 (with comparative figures as of December 31, 2014 and for the period ended September 30, 2014) and Selected Notes to the Consolidated Financial Statements are attached hereto as **Annex "A"**.

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

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

## PART II – OTHER INFORMATION

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

NONE

## SIGNATURES

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

Issuer **GINEBRA SAN MIGUEL INC.**

Signature and Title

  
**Cynthia M. Baroy**  
Chief Finance Officer

Date

**NOVEMBER 13, 2015**



**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2015 AND DECEMBER 31, 2014**  
(Amounts in Thousands)

	<i>Note</i>	<u>2015</u> <u>Unaudited</u>	<u>2014</u> <u>Audited</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7, 8	P 327,725	P 579,917
Trade and other receivables - net	5, 7, 8	2,674,405	3,259,859
Inventories		3,588,844	2,657,224
Prepaid taxes and other current assets	7, 8	1,558,099	1,478,152
		<u>8,149,073</u>	<u>7,975,152</u>
Assets held for sale	3	-	547,706
<b>Total Current Assets</b>		<u>8,149,073</u>	<u>8,522,858</u>
<b>Noncurrent Assets</b>			
Investments in joint ventures		585,729	659,488
Property, plant and equipment - net	4	5,611,923	5,936,826
Goodwill		226,863	226,863
Deferred tax assets		1,166,226	1,116,010
Other noncurrent assets - net	5, 7, 8	1,555,210	1,489,646
<b>Total Noncurrent Assets</b>		<u>9,145,951</u>	<u>9,428,833</u>
		<u>P 17,295,024</u>	<u>P 17,951,691</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Notes payable	5, 7, 8	P 9,394,215	P 10,084,440
Trade and other payables	5, 7, 8	2,545,884	2,329,193
Income and other taxes payable		145,252	219,952
Current maturities of long-term debt	7, 8	114,286	114,286
<b>Total Current Liabilities</b>		<u>12,199,637</u>	<u>12,747,871</u>
<b>Noncurrent Liabilities</b>			
Retirement liabilities		218,776	218,776
Long-term debt - net of current maturities	7, 8	257,143	342,857
<b>Total Noncurrent Liabilities</b>		<u>475,919</u>	<u>561,633</u>
<b>Total Liabilities</b>		<u>12,675,556</u>	<u>13,309,504</u>
<b>Equity</b>			
Capital stock		399,063	399,063
Additional paid-in capital		2,539,454	2,539,454
Reserve for retirement plan		(135,675)	(135,675)
Cumulative translation adjustments		(85,962)	(54,040)
Retained earnings:			
Appropriated		2,500,000	2,500,000
Unappropriated		2,072,561	2,063,358
Treasury stock		(2,669,973)	(2,669,973)
<b>Total Equity</b>		<u>4,619,468</u>	<u>4,642,187</u>
		<u>P 17,295,024</u>	<u>P 17,951,691</u>

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

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**  
(Amounts in Thousands, Except Per Share Data)


			2015		2014		For the Quarters Ended		2015		2014
		Note	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited
<b>CONTINUING OPERATIONS</b>											
SALES		2	P 11,413,779		P 10,175,906		P 4,034,298		P 3,571,415		
COST OF SALES			<u>8,269,727</u>		<u>7,415,888</u>		<u>2,983,750</u>		<u>2,600,482</u>		
GROSS PROFIT			3,144,052		2,760,018		1,050,548		970,933		
SELLING AND MARKETING EXPENSES			(1,336,004)		(1,321,135)		(444,252)		(487,692)		
GENERAL AND ADMINISTRATIVE EXPENSES			(1,371,294)		(1,204,525)		(467,251)		(427,769)		
INTEREST EXPENSE AND OTHER FINANCING CHARGES			(376,046)		(426,989)		(125,884)		(142,436)		
INTEREST INCOME			23,187		15,737		6,869		5,414		
EQUITY IN NET LOSSES OF JOINT VENTURES			(41,836)		(55,033)		(25,225)		(12,983)		
OTHER INCOME - NET			<u>48,883</u>		<u>17,490</u>		<u>38,501</u>		<u>33,007</u>		
INCOME (LOSS) BEFORE INCOME TAX			90,942		(214,437)		33,306		(61,526)		
INCOME TAX EXPENSE (BENEFIT)			<u>57,185</u>		<u>(23,556)</u>		<u>29,525</u>		<u>6,140</u>		
NET INCOME (LOSS) FROM CONTINUING OPERATIONS			33,757		(190,881)		3,781		(67,666)		
<b>DISCONTINUED OPERATIONS</b>											
LOSS FROM DISCONTINUED OPERATIONS - NET OF TAX		3	<u>(24,554)</u>		<u>(89,693)</u>		-		<u>(24,496)</u>		
NET INCOME (LOSS)			P <u>9,203</u>		P <u>(280,574)</u>		P <u>3,781</u>		P <u>(92,162)</u>		
Basic and diluted loss per share		6	P <u>(0.10)</u>		P <u>(1.09)</u>		P <u>(0.03)</u>		P <u>(0.36)</u>		
Basic and diluted loss per share - continuing operations		6	P <u>(0.01)</u>		P <u>(0.79)</u>		P <u>(0.03)</u>		P <u>(0.28)</u>		

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

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**  
(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>	<u>For the Quarters Ended</u>	<u>2015</u>	<u>2014</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
NET INCOME (LOSS)	P 9,203	P (280,574)	P 3,781	P (92,162)	
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF JOINT VENTURES WHICH MAY BE RECLASSIFIED TO PROFIT OR LOSS	<u>(31,922)</u>	<u>16,505</u>	<u>(20,987)</u>	<u>18,296</u>	
OTHER COMPREHENSIVE INCOME (LOSS)	<u>(31,922)</u>	<u>16,505</u>	<u>(20,987)</u>	<u>18,296</u>	
TOTAL COMPREHENSIVE LOSS - NET OF TAX	P <u><u>(22,719)</u></u>	P <u><u>(264,069)</u></u>	P <u><u>(17,206)</u></u>	P <u><u>(73,866)</u></u>	

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





**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**  
(Amounts in Thousands)

	Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Adjustments	Retained Earnings		Treasury Stock	Total
	Common	Preferred	Capital	Plan		Appropriated	Unappropriated		
As of January 1, 2015 (Audited)	P 345,625	P 53,438	P 2,539,454	P (135,675)	P (54,040)	P 2,500,000	P 2,063,358	P (2,669,973)	P 4,642,187
Share in other comprehensive loss of joint ventures	-	-	-	-	(31,922)	-	-	-	(31,922)
Net income for the period	-	-	-	-	-	-	9,203	-	9,203
Total comprehensive income (loss) for the period	-	-	-	-	(31,922)	-	9,203	-	(22,719)
As of September 30, 2015 (Unaudited)	P 345,625	P 53,438	P 2,539,454	P (135,675)	P (85,962)	P 2,500,000	P 2,072,561	P (2,669,973)	P 4,619,468
As of January 1, 2014 (Audited)	P 345,625	P 53,438	P 2,539,454	P (86,704)	P (59,604)	P 2,500,000	P 2,829,565	P (2,579,409)	P 5,542,365
Share in other comprehensive income of joint ventures	-	-	-	-	16,505	-	-	-	16,505
Net loss for the period	-	-	-	-	-	-	(280,574)	-	(280,574)
Total comprehensive income (loss) for the period	-	-	-	-	16,505	-	(280,574)	-	(264,069)
Cancellation of Employee Stock Purchase Plan reverted to treasury shares	-	-	-	-	-	-	-	(90,564)	(90,564)
As of September 30, 2014 (Unaudited)	P 345,625	P 53,438	P 2,539,454	P (86,704)	P (43,099)	P 2,500,000	P 2,548,991	P (2,669,973)	P 5,187,732

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





**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2015 AND 2014**  
(Amounts in Thousands)

	2015	2014
	Unaudited	Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax from:		
Continuing operations	P 90,942	P (214,437)
Discontinued operations	(35,077)	(128,133)
	55,865	(342,570)
Adjustments for:		
Depreciation and amortization	499,735	534,743
Interest expense and other financing charges	376,046	426,989
Equity in net losses of joint ventures	41,836	55,033
Provision for impairment losses on receivables	15,000	-
Net unrealized foreign exchange loss (gain)	1,965	(1,424)
Net derivative loss	873	2,095
Loss (gain) on sale of property and equipment	(57,786)	103
Interest income	(23,188)	(15,737)
Operating income before working capital changes	910,346	659,232
Decrease (increase) in:		
Trade and other receivables	415,579	(142,744)
Inventories	(922,667)	517,947
Prepaid taxes and other current assets	7,048	53,971
Increase (decrease) in:		
Trade and other payables	277,566	(175,651)
Other taxes payable	(67,906)	(24,000)
Retirement liabilities	(97,077)	(68,951)
Cash provided by operations	522,889	819,804
Interest received	21,124	15,737
Income taxes paid	(27,759)	(11,711)
Net cash flows provided by operating activities	516,254	823,830
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(111,651)	(149,300)
Decrease (increase) in other non current assets	627	(354,031)
Proceeds from sale of property and equipment	31,503	882
Proceeds from sale of NAB assets	471,515	-
Net cash flows provided by (used in) investing activities	391,994	(502,449)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Short-term borrowings	64,790,546	72,922,114
Issuance of common shares	4,063	7,723
Payments of:		
Short-term borrowings	(65,480,771)	(72,562,714)
Long-term borrowings	(85,714)	(471,429)
Interest expense and other financing charges	(388,787)	(451,809)
Cash dividends	(17)	(26)
Net cash flows used in financing activities	(1,160,680)	(556,141)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	240	959
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(252,192)	(233,801)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	579,917	513,312
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	P 327,725	P 279,511

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

## GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

## AGING OF ACCOUNTS RECEIVABLES

SEPTEMBER 30, 2015 (UNAUDITED)

(Amounts in Thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
<b>a) Trade Receivables</b>	P	2,563,302	1,143,650	639,708	162,838	72,590	544,516
Less: Allowance for Doubtful Accounts		152,143	-	-	-	-	152,143
<b>Net Trade Receivables</b>		<b>2,411,159</b>	<b>1,143,650</b>	<b>639,708</b>	<b>162,838</b>	<b>72,590</b>	<b>392,373</b>
<b>b) Non-Trade Receivables</b>		344,326	31,397	5,334	6,704	9,388	291,503
Less: Allowance for Doubtful Accounts		81,080	-	-	-	-	81,080
<b>Net Non-Trade Receivables</b>		<b>263,246</b>	<b>31,397</b>	<b>5,334</b>	<b>6,704</b>	<b>9,388</b>	<b>210,423</b>
<b>NET RECEIVABLES</b>	P	<b>2,674,405</b>	<b>1,175,047</b>	<b>645,042</b>	<b>169,542</b>	<b>81,978</b>	<b>602,796</b>



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

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

The Group prepared its interim consolidated financial statements as of and for the period ended September 30, 2015 and comparative financial statements for the same period in 2014 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New and Amended Standards

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

*Amendments to Standards Adopted in 2015*

The Group has adopted the following PFRS starting January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
  - Meaning of 'Vesting Condition' (*Amendment to PFRS 2, Share-based Payment*). PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition.
  - Scope Exclusion for the Formation of Joint Arrangements (*Amendment to PFRS 3, Business Combinations*). PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e., including joint operations - in the financial statements of the joint arrangements themselves.



- Disclosures on the Aggregation of Operating Segments (*Amendments to PFRS 8, Operating Segments*). PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Scope of Portfolio Exception (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.
- Definition of 'Related Party' (*Amendments to PAS 24, Related Party Disclosures*). The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans.
- Classification and Measurement of Contingent Consideration (*Amendments to PFRS 3*). The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is amended to exclude provisions related to contingent consideration.

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



### *New and Amended Standards Not Yet Adopted*

A number of new and amended standards are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Disclosure Initiative (Amendments to PAS 1, *Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income and consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.
- 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 dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. 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. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:
  - *Changes in Method for Disposal (Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)*. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to changes in methods of disposal that occur on or after January 1, 2016.
  - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendment to PFRS 7, Financial Instruments: Disclosures)*. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
  - *Disclosure of Information "Elsewhere in the Interim Financial Report" (Amendment to PAS 34)*. The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting

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

## 2. Segment Information

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

The Group is organized into two major operating segments namely alcoholic and nonalcoholic beverages (NAB).

The alcoholic segment produces and markets alcoholic beverages.

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

Financial information about operating segments follow:

	Alcoholic		Nonalcoholic		Consolidated	
	2015	2014	2015	2014	2015	2014
<b>REVENUES</b>						
Net Sales	P 11,331,440	P 10,141,730	P 155,370	P 485,970	P 11,486,810	P 10,627,700
<b>RESULT</b>						
Segment Result *	521,753	256,385	(126,143)	(131,896)	395,610	124,489

\*Includes rental income and sale of scrap.



### 3. Discontinued Operations

Pursuant to the authority given by BOD on December 5, 2014 to transfer to San Miguel Brewery Inc. (SMB) certain NAB assets of GSMI consisting of property, plant and equipment as of December 31, 2014 and finished goods and other inventories as of March 31, 2015, GSMI and SMB executed the Deed of Sale for the said property, plant and equipment on April 1, 2015 and the Deed of Sale for the said finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials on April 30, 2015.

As of December 31, 2014, the NAB segment was classified as a disposal group held for sale and as discontinued operations.

The NAB segment was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statements of income has been restated to show the discontinued operation separately from continuing operations.

	September 30, 2015		September 30, 2014	
Sales	P	73,031	P	451,794
Cost of sales		67,823		311,928
Gross profit		5,208		139,866
Selling and marketing expenses		(71,193)		(234,246)
General and administrative expenses		(11,592)		(33,887)
Other income - net		149		134
Loss before income tax		(77,428)		(128,133)
Income tax benefit		(23,228)		(38,440)
Loss from discontinued operations		(54,200)		(89,693)
Gain on disposal of assets - net of tax of P12,705		29,646		-
	P	(24,554)	P	(89,693)

The major classes of NAB assets classified as held for sale as December 31, 2014 are as follows:

		2014
Property, plant and equipment - net	P	193,941
Finished goods and other inventories		353,765
<b>Assets held for sale</b>	<b>P</b>	<b>547,706</b>



#### 4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2015

	January 1, 2015		Additions		Disposals/ Retirements		Reclassifications		September 30, 2015	
<b>Cost</b>										
Land and Land Improvements	P	727,747	P	11	P	(177)	P	33,422	P	761,003
Buildings and Building Improvements		2,527,146		-		(48,717)		(617,736)		1,860,693
Transportation Equipment		212,907		-		(2,548)		4,800		215,159
Machinery and Equipment		8,562,185		122		(541,567)		427,489		8,448,229
Furniture, Fixtures and Office Equipment		129,744		-		(15,411)		121		114,454
Other Equipment		746,953		1,679		(2,455)		56,562		802,739
Leasehold Improvements		141,652		-		(1,942)		282		139,992
Construction in Progress		81,912		109,839		-		(53,275)		138,476
	P	13,130,246	P	111,651	P	(612,817)	P	(148,335)	P	12,480,745
<b>Accumulated Depreciation and Amortization</b>										
Land Improvements	P	177,069	P	3,125	P	-	P	1	P	180,195
Buildings and Building Improvements		895,091		41,845		(44,459)		641		893,118
Transportation Equipment		173,163		17,055		(2,548)		3,164		190,834
Machinery and Equipment		4,981,817		295,538		(539,816)		(173,490)		4,564,049
Furniture, Fixtures and Office Equipment		110,487		9,588		(15,080)		(1,057)		103,938
Other Equipment		522,921		58,494		(1,883)		20,665		600,197
Leasehold Improvements		25,272		3,708		(366)		277		28,891
	P	6,885,820	P	429,353	P	(604,152)	P	(149,799)	P	6,561,222
<b>Accumulated Impairment Losses</b>										
Machinery and Equipment	P	307,600	P	-	P	-	P	-	P	307,600
	P	307,600	P	-	P	-	P	-	P	307,600
<b>Net Book Value</b>	P	5,936,826	P	(317,702)	P	(8,665)	P	1,464	P	5,611,923

September 30, 2014

	January 1, 2014		Additions		Retirements		Reclassifications		September 30, 2014
Cost									
Land and Land Improvements	P	727,692	P	-	P	-	P	-	727,692
Buildings and Building Improvements		2,510,685		-		-		16,449	2,527,134
Transportation Equipment		248,525		-		(25,971)		6,171	228,725
Machinery and Equipment		8,682,231		520		(96)		93,111	8,775,766
Furniture, Fixtures and Office Equipment		127,292		-		(4,020)		5,238	128,510
Other Equipment		786,190		-		(110,583)		173,007	848,614
Leasehold Improvements		141,389		-		-		264	141,653
Construction in Progress		530,828		148,780		-		(295,919)	383,689
	P	13,754,832	P	149,300	P	(140,670)	P	(1,679)	13,761,783
Accumulated Depreciation and Amortization									
Land Improvements	P	173,084	P	2,976	P	-	P	16	176,076
Buildings and Building Improvements		841,170		40,499		-		88	881,757
Transportation Equipment		174,619		25,669		(25,045)		191	175,434
Machinery and Equipment		4,735,729		319,023		(38)		2,476	5,057,190
Furniture, Fixtures and Office Equipment		98,735		12,657		(4,020)		76	107,448
Other Equipment		603,219		52,650		(110,583)		512	545,798
Leasehold Improvements		18,587		4,336		-		18	22,941
	P	6,645,143	P	457,810	P	(139,686)	P	3,377	6,966,644
Accumulated Impairment Losses									
Machinery and Equipment	P	307,600	P	-	P	-	P	-	307,600
	P	307,600	P	-	P	-	P	-	307,600
Net Book Value	P	6,802,089	P	(308,510)	P	(984)	P	(5,056)	6,487,539

Depreciation and amortization charged to operations amounted to P429,353 and P457,810 for the periods ended September 30, 2015 and 2014, respectively.

## 5. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of September 30, 2015 and December 31, 2014:

	Reporting Period		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	September 30, 2015	P	3,692	P 207,268	P 8,926	P 143,363	On demand;	Unsecured;
	December 31, 2014		10,913	263,184	23,399	95,998	Non-interest bearing	No impairment
Under Common Control	September 30, 2015		526,829	2,348,511	153,204	551,792	On demand;	Unsecured;
	December 31, 2014		249,456	3,088,207	233,413	553,259	Non-interest bearing	No impairment
Joint Venture	September 30, 2015		-	-	663,941	-	On demand;	Unsecured;
	December 31, 2014		-	-	663,941	-	Non-interest bearing	No impairment
Associate of the Parent Company	September 30, 2015		-	-	-	1,754,600	2 months;	Unsecured
	December 31, 2014		-	-	-	3,047,665	Interest bearing	
September 30, 2015		P	530,521	P 2,555,779	P 826,071	P 2,449,755		
December 31, 2014		P	260,369	P 3,351,391	P 920,753	P 3,696,922		

- Amounts owed by related parties consist of current and noncurrent receivables and deposits.
- Amounts owed to related parties consist of trade payables and management fees.
- The amounts owed to associate of the Parent Company include interest bearing loans to BOC presented as part of "Notes Payable" account in the consolidated statements of financial position.



## 6. Basic and Diluted Loss Per Share

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

September 30, 2015					
	Continuing		Discontinued		Total
Net income (loss)	P	33,757	P	(24,554)	P 9,203
Less: Dividends on preferred shares for the period		36,885		-	36,885
Net loss available to common shares (a)		(3,128)		(24,554)	(27,682)
Weighted average number of common shares outstanding (b)		286,328		286,328	286,328
Basic and Diluted Loss Per Share (a/b)	P	(0.01)	P	(0.09)	P (0.10)

September 30, 2014				
		Continuing	Discontinued	Total
Net loss	P	(190,881) P	(89,693) P	(280,574)
Less: Dividends on preferred shares for the period		36,885	-	36,885
Net loss available to common shares (a)		(227,766)	(89,693)	(317,459)
Weighted average number of common shares outstanding (b)		290,076	290,076	290,076
Basic and Diluted Loss Per Share (a/b)	P	(0.79) P	(0.31) P	(1.09)

## 7. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

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

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

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

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

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies.



The committee reports regularly to the BOD on its activities.

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

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

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

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

#### Interest Rate Risk

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

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

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P3,148 and P5,221 for the period ended September 30, 2015 and for the year ended December 31, 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:

September 30, 2015	<1 year	1-2 years	>2-3 years	>3-4 years	Total
<b>Floating rate</b>					
Philippine peso-denominated	P	P	P	P	
Interest rate*	114,286	114,286	114,286	28,571	371,429
	PDST-R +	PDST-R +	PDST-R +	PDST-R +	
	margin or BSP	margin or BSP	margin or BSP	margin or BSP	
	overnight rate,	overnight rate,	overnight rate,	overnight rate,	
	whichever is	whichever is	whichever is	whichever is	
	higher	higher	higher	higher	
	P	P	P	P	
	114,286	114,286	114,286	28,571	371,429

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

December 31, 2014	<1 year	1-2 years	>2-3 years	>3-4 years	Total
<b>Floating rate</b>					
Philippine peso-denominated	P	P	P	P	
Interest rate	114,286	114,286	114,286	114,285	457,143
	PDST-F +	PDST-F +	PDST-F +	PDST-F +	
	margin or BSP	margin or BSP	margin or BSP	margin or BSP	
	overnight rate,	overnight rate,	overnight rate,	overnight rate,	
	whichever is	whichever is	whichever is	whichever is	
	higher	higher	higher	higher	
	P	P	P	P	
	114,286	114,286	114,286	114,285	457,143



### 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:

	September 30, 2015		December 31, 2014	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	US\$ 208	P 9,717	US\$ 2,440	P 109,137
Trade and other receivables	412	19,236	580	25,954
Foreign currency-denominated monetary assets	US\$ 620	P 28,953	US\$ 3,020	P 135,091

The Group reported net foreign exchange loss (gain) amounting to P1,965 and (P1,424) for the periods ended September 30, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2013	44.395
September 30, 2014	44.875
December 31, 2014	44.720
<b>September 30, 2015</b>	<b>46.740</b>

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. Foreign exchange movements affect reported retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

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

September 30, 2015	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 208)	(P 146)	P 208	P 146
Trade and other receivables	(412)	(288)	412	288
	(P 620)	(P 434)	P 620	P 434



December 31, 2014	P1 Decrease in the US Dollar		P1 Increase in the US Dollar	
	Exchange Rate		Exchange Rate	
	Effect on		Effect on	
	Income before Income Tax	Effect on Equity	Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 2,440)	(P 1,708)	P 2,440	P 1,708
Trade and other receivables	(580)	(406)	580	406
	(P 3,020)	(P 2,114)	P 3,020	P 2,114

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

#### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through San Miguel Corporation (SMC), enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group and managing inventory levels of common materials.

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

#### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under the normal and stress circumstances.

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

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

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

September 30, 2015	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years
<b>Financial Assets</b>					
Cash and cash equivalents	P327,725	P327,725	P327,725	P -	P -
Trade and other receivables - net	2,674,405	2,674,405	2,674,405	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	255	255	255	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	920,473	920,473	-	256,048	664,425
<b>Financial Liabilities</b>					
Notes payable	9,394,215	9,446,112	9,446,112	-	-
Trade and other payables (excluding dividends payable)	2,540,431	2,540,431	2,540,431	-	-
Derivative liabilities (included under "Trade and other payables" account)	191	191	191	-	-
Long-term debt (including current maturities)	371,429	395,870	127,092	122,422	146,356
<hr/>					
December 31, 2014	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years
<b>Financial Assets</b>					
Cash and cash equivalents	P 579,917	P 579,917	P 579,917	-	-
Trade and other receivables - net	3,259,859	3,259,859	3,259,859	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	52	52	52	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	853,923	853,923	-	189,498	664,425
<b>Financial Liabilities</b>					
Notes payable	10,084,440	10,152,613	10,152,613	-	-
Trade and other payables (excluding dividends payable)	2,323,555	2,323,555	2,323,555	-	-
Derivative liabilities (included under "Trade and other payables" account)	360	360	360	-	-
Long-term debt (including current maturities)	457,143	494,165	130,524	125,924	237,717



### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

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

### Trade and Other Receivables

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

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

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

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

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

	September 30, 2015	December 31, 2014
Cash and cash equivalents	P 327,725	P 579,917
Trade and other receivables - net	2,674,405	3,259,859
Derivative assets	255	52
Noncurrent receivables and deposits	920,473	853,923
	<b>P 3,922,858</b>	<b>P 4,693,751</b>

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 credit qualities of trade and other receivables are based on a combination of credit standing or rating of the counterparty, historical experience and specific and collective credit risk assessment. Trade and other receivables that are neither past due nor impaired are of standard



grade. Deposits are high-grade financial instruments with satisfactory financial capability and credit standing.

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

#### Capital Management

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

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

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

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

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

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

---

## **8. Financial Assets and Financial Liabilities**

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

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

*'Day 1' Profit.* 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' profit) in profit or loss



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 profit or loss 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' profit amount.

#### Financial Assets

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. 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 profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

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



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

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

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

The Group has no financial assets classified as HTM investments and AFS financial assets as of September 30, 2015 and December 31, 2014.

#### Financial Liabilities

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

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

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

The Group's derivative liabilities are classified under this category.

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



### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

### Impairment of Financial Assets

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



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

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

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

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at the current market rate of return for similar financial asset. Such impairment loss shall not be reversed.

#### Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument 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.

#### 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 profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

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

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P327,725	P327,725	P 579,917	P 579,917
Trade and other receivables - net	2,674,405	2,674,405	3,259,859	3,259,859
Derivative assets (included under "Prepaid expenses and other current assets" account)	255	255	52	52
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	920,473	920,473	853,923	853,923
<b>Financial Liabilities</b>				
Notes payable	9,394,215	9,394,215	10,084,440	10,084,440
Trade and other payables (excluding dividends payable)	2,540,431	2,540,431	2,323,555	2,323,555
Derivative liabilities (included under "Trade and other payables" account)	191	191	360	360
Long-term debt (including current maturities)	371,429	371,429	457,143	457,143

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 carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments

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

#### Derivative Instruments not Designated as Hedges

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

#### *Embedded Currency Forwards*

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$709, US\$317 and US\$828 as of September and June 30, 2015 and December 31, 2014, 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 P64, (P205) and (P308) as of September and June 30, 2015 and December 31, 2014, respectively.

For the periods ended September 30, 2015 and 2014, June 30, 2015 and 2014, the Group recognized marked-to-market losses (gains) from embedded derivatives amounting to P873, P2,095, P761 and (P36), respectively.

#### Fair Value Measurements

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

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

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



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

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

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

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

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

The Group's derivative assets and derivative liabilities amounting to P255 and P191, respectively, as of September 30, 2015 and P52 and P360, respectively, as of December 31, 2014, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

---

## 9. Other Matters

- (a) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- (b) There were no material changes in estimates of amounts reported in prior financial years.
- (c) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- (d) There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- (e) There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- (f) The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.

- (g) There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of September 30, 2015.
- (h) The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of September 30, 2015. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.
- (i) Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.





## ***GINEBRA SAN MIGUEL INC.***

### **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (the Parent Company or GSMI) and its subsidiaries (collectively referred to as the Group) as of and for the period ended September 30, 2015 (with comparative figures as of December 31, 2014 and for the period ended September 30, 2014). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2015, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

#### **I. FINANCIAL PERFORMANCE**

##### **2015 vs. 2014**

The volume increase of key brands and price adjustment implemented in January 2015 resulted to 12% revenue growth versus the same period last year. Similarly, gross profit also improved by 14% compared to last year despite the 12% increase in cost of sales.

Additional spending for marketing programs increased selling and marketing expenses by 1%, while payment of various tax-related charges increased general and administrative expenses by 14%.

Thai San Miguel Liquor Co., Ltd. (TSML) posted lower losses resulting to a 24% decline in equity in net losses of joint ventures.

Furthermore, payment on long term debt and gain on sale of asset resulted to a decrease in interest expense and other financing charges versus last year. Interest income also increased by 47% versus same period last year.

The after tax result of operations was a turnaround of ₱9 million net income as compared to previous year’s net loss of ₱281 million.

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

##### **2014 vs. 2013**

Revenues grew 7% versus the same nine-month period last year due to volume growth and the impact of the price increase on liquor products.

Higher volumes of liquor, higher selling prices and lower production cost resulted in a 43% increase in gross profit over same period last year.

Managed spending for marketing programs trimmed down selling and marketing expenses by 13%. While, general and administrative expenses grew 10% mainly due to payment of various tax-related charges.

## Annex “B”

Settlement of maturing long-term debt and reduced short-term loan availments due to lower working capital requirement, resulted in a 17% decline in interest expense, net of interest income.

Decrease in other income was due to the inventory losses recognized in the nine months of this year.

Income tax benefit dropped by 84% due to significantly lower net loss incurred in the first nine months of this year over the same period last year.

Improvement in volumes, particularly flagship brand Ginebra San Miguel, resulted from the implementation of sales and marketing programs and the thematic campaign “Ganado sa Buhay” which was launched in the first semester. Cost reduction and working capital management further reduced operating and financing expenses. All these resulted in 73% drop in net loss versus last year.

Continued focus on core brands since the beginning of the year reaped gains in the nine months of the year. The launch of a consumer promo in the third quarter is expected to further boost consumer interest and offtake. With continuous cost reduction programs implemented and improved distribution, company operating income is expected to improve further in the fourth quarter. This is also expected to generate cash from operations that will trim down short-term borrowings.

## II. FINANCIAL POSITION

### 2015 vs. 2014

The cash position at the end of third quarter is lower by 43% due to settlement of debts and interest obligations.

The reduction of accounts receivable, despite higher sales revenue, was a result of improved collection which translated to an 18% reduction in trade and other receivables.

Inventories grew by 35% due in part to higher production of finished goods in anticipation of the seasonal increase in orders and higher sales demand. Also contributing to the increase was a purposive build-up of alcohol and bunker fuel inventory to mitigate the continuous rise in molasses prices.

Year-to-date net loss of joint venture, TSML, caused by lower joint venture sales volumes, resulted in an 11% decline in investment in joint ventures.

Trade and other payables increased by 9% due to additional purchase of materials and supplies.

Income and other taxes payable were reduced by 34% on account of higher input tax and higher Minimum Corporate Income Tax (MCIT) due to better operating results.

Long-term debt – net of current maturities was reduced by 25%, due to the payment of Parent Company’s long-term debt.



## Annex “B”

### 2014 vs. 2013

Cash was used in partial settlement of maturing long-term loans and remittance of advances to the joint venture, TSML. This resulted to a 46% drop in cash and cash equivalents.

Inventories declined by 16% due to managed purchases of raw materials particularly alcohol in order to reduce working capital levels.

Net loss of joint venture, TSML prompted by lower joint venture sales volumes, resulted in 5% decline in investment in joint ventures.

Deferred tax assets grew by 9% on account of increased recognized deferred tax on NOLCO.

Advances extended to TSML in the first semester of the year led to a 37% increase in net other non-current assets.

Income and other taxes payable reduced by 15% on account of lower output tax and managed purchases of raw materials.

Long-term debt – net of current maturities and debt issue costs reduced by 56% to P371 million, due to payment to current maturities of Parent Company’s long-term debt.

### Equity

The decrease in equity for the period ended September 30, 2015 and 2014 are due to:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Millions)</i>	
Net income (loss) for the period	<b>P9</b>	(P281)
Share in other comprehensive income of joint ventures	<b>(32)</b>	17
Cancellation of Employee Stock Purchase Plan reverted to treasury shares	<b>-</b>	(91)
	<b>(P23)</b>	(P355)

### **III. SOURCES AND USES OF CASH**

A brief summary of cash flow movements is shown below:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Millions)</i>	
Net cash flows provided by operating activities	<b>P516</b>	P824
Net cash flows provided by (used in) investing activities	<b>392</b>	(502)
Net cash flows used in financing activities	<b>(1,161)</b>	(556)

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

## Annex “B”

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

	September 30	
	2015	2014
	<i>(In Millions)</i>	
Additions to property, plant and equipment	(P112)	(P149)
Decrease (increase) in other noncurrent assets	1	(354)
Proceeds from sale of property, plant and equipment	503	1

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

	September 30	
	2015	2014
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	P64,791	P72,922
Issuance of common shares	4	8
Payments of:		
Short-term borrowings	(65,481)	(72,563)
Long-term borrowings	(86)	(471)
Interest	(389)	(452)

The effect of exchange rate changes on cash and cash equivalents amounted to P240 thousand and P959 thousand for the periods ended September 30, 2015 and September 30, 2014, respectively.



## Annex “B”

### IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II, “Financial Performance” for the discussion of certain Key Performance Indicators.

KPI	September 30, 2015	December 31, 2014
Liquidity: <b>Current Ratio</b>	<b>0.67</b>	0.67
Solvency: <b>Debt to Equity Ratio</b> <b>Asset to Equity Ratio</b>	<b>2.74</b> <b>3.74</b>	2.87 3.87
Profitability: <b>Return on Average Equity</b> <b>Interest Rate Coverage Ratio</b>	<b>0%</b> <b>2.42</b>	(15%) 1.80

KPI	Period Ended September 30	
	2015	2014
Operating Efficiency: <b>Volume Growth</b> <b>Revenue Growth</b> <b>Operating Margin</b>	<b>5%</b> <b>12%</b> <b>3%</b>	2% 9% 1%

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

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

\* Annualized for quarterly reporting