

# 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, 2018
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  
Postal Code  
1550
8. Issuer's telephone number, including area code  
(+632) 841-5100
9. Former name or former address, and former fiscal year, if changed since last report  
N.A.
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

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

11. Are any or all of registrant's securities listed on a Stock Exchange?  
Yes      No  
If yes, state the name of such stock exchange and the classes of securities listed therein:  
THE PHILIPPINE STOCK EXCHANGE, INC. - Common
12. Indicate by check mark whether the registrant:

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

Yes            No

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

Yes            No

*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, 2018
Currency (indicate units, if applicable)	Php (in thousands)

**Balance Sheet**

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2018	Dec 31, 2017
Current Assets	7,141,763	6,657,579
Total Assets	13,435,360	13,317,276
Current Liabilities	6,205,693	7,766,373
Total Liabilities	7,605,684	8,303,343
Retained Earnings/(Deficit)	5,930,046	5,141,390
Stockholders' Equity	5,829,676	5,013,933
Stockholders' Equity - Parent	5,687,435	4,948,164
Book Value per Share	18.27	15.71

**Income Statement**

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	5,869,127	5,205,213	17,914,670	15,329,671
Gross Expense	5,403,212	4,880,358	16,586,744	14,454,288
Non-Operating Income	16,792	32,467	75,084	75,805
Non-Operating Expense	63,456	96,062	228,383	289,617
Income/(Loss) Before Tax	419,251	261,260	1,174,627	661,571
Income Tax Expense	136,946	89,805	385,971	224,940
Net Income/(Loss) After Tax	282,305	171,455	788,656	436,631
Net Income Attributable to Parent Equity Holder	259,686	242,185	739,271	518,580
Earnings/(Loss) Per Share (Basic)	0.94	0.56	2.63	1.4
Earnings/(Loss) Per Share (Diluted)	0.94	0.56	2.63	1.4

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	3.33	1.96
Earnings/(Loss) Per Share (Diluted)	3.33	1.96

**Other Relevant Information**

Please see attached GSMI Quarterly Report (SEC Form 17-Q) for the period ended September 30, 2018. Amounts in thousands pesos, except per share data

**Filed on behalf by:**

<b>Name</b>	Conchita Jamora
<b>Designation</b>	General Counsel and Assistant Corporate Secretary



111142018001744



## 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** : Edmundo Guia  
**Receiving Branch** : SEC Head Office  
**Receipt Date and Time** : November 14, 2018 03:23:37 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** 111142018001744  
**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
**Document Code** 17-Q  
**Period Covered** September 30, 2018  
**No. of Days Late** 0  
**Department** CFD  
**Remarks**

# COVER SHEET

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

S. E. C. Registration Number

G	I	N	E	B	R	A	S	A	N	M	I	G	U	E	L
I	N	C	.	A	N	D									
S	U	B	S	I	D	I	A	R	I	E	S				

(Company's Full Name)

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	Day

3	1
Month	Day

SEC FORM 17-Q (3 <sup>rd</sup> Qtr 2018)
FORM TYPE

Month	Day

Month	Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc. Number/Section

Amended Articles

Total No. of Stockholders Foreign

Total Amount of Borrowings	
	Domestic

-----  
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, 2018**
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, 2018**

<b>COMMON SHARES</b>	<b>286,327,841</b>
<b>PREFERRED SHARES</b>	<b><u>32,786,885</u></b>
	<b>319,114,726</b>

**TOTAL LIABILITIES** **Php 7,605,684**

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

Yes [ / ]    No [   ]

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

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

12. Indicate by check mark whether the registrant:

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

Yes [ / ]    No [   ]

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

Yes [ / ]    No [   ]

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The unaudited consolidated financial statements of Ginebra San Miguel Inc. and its subsidiaries as of and for the period ended September 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended September 30, 2017) 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.

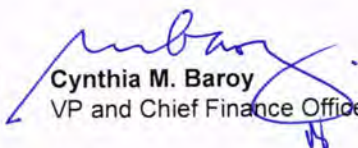
**NONE**

**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**  
VP and Chief Finance Officer

Date

**November 9, 2018**  


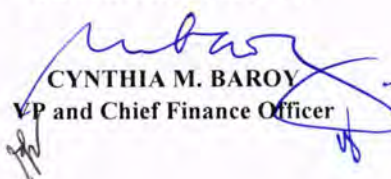


**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2018 AND DECEMBER 31, 2017**  
(In Thousands)

	<i>Note</i>		<u>2018</u>		<u>2017</u>
			<u>Unaudited</u>		<u>Audited</u>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	6, 7	P	539,463	P	198,767
Trade and other receivables - net	4, 6, 7		1,592,907		1,714,662
Inventories			3,594,350		3,323,655
Prepaid expenses and other current assets	4, 6, 7		<u>1,415,043</u>		<u>1,420,495</u>
<b>Total Current Assets</b>			<u>7,141,763</u>		<u>6,657,579</u>
<b>Noncurrent Assets</b>					
Investments in joint ventures			309,689		346,290
Property, plant and equipment - net	2		4,736,806		4,997,516
Goodwill			126,863		126,863
Deferred tax assets - net			672,387		673,138
Other noncurrent assets - net	4, 6, 7		<u>447,852</u>		<u>515,890</u>
<b>Total Noncurrent Assets</b>			<u>6,293,597</u>		<u>6,659,697</u>
		P	<u>13,435,360</u>	P	<u>13,317,276</u>
<b>LIABILITIES AND EQUITY</b>					
<b>Current Liabilities</b>					
Notes payable	4, 6, 7	P	2,645,000	P	5,532,340
Accounts payable and accrued expenses	4, 6, 7		3,219,509		2,009,854
Income and other taxes payable			283,835		109,894
Current maturities of long-term debt - net of debt issue costs	3, 6, 7		<u>57,349</u>		<u>114,285</u>
<b>Total Current Liabilities</b>			<u>6,205,693</u>		<u>7,766,373</u>
<b>Noncurrent Liabilities</b>					
Retirement liabilities			464,815		536,970
Long-term debt - net of debt of issue costs	3, 6, 7		<u>935,176</u>		<u>-</u>
<b>Total Noncurrent Liabilities</b>			<u>1,399,991</u>		<u>536,970</u>
<b>Total Liabilities</b>			<u>7,605,684</u>		<u>8,303,343</u>
<b>Equity</b>					
Capital stock			399,063		399,063
Additional paid-in capital			2,539,454		2,539,454
Equity reserves			(368,914)		(396,001)
Retained earnings:					
Appropriated			2,500,000		2,500,000
Unappropriated			3,430,046		2,641,390
Treasury stock			<u>(2,669,973)</u>		<u>(2,669,973)</u>
<b>Total Equity</b>			<u>5,829,676</u>		<u>5,013,933</u>
		P	<u>13,435,360</u>	P	<u>13,317,276</u>

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

**CERTIFIED CORRECT:**

  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer

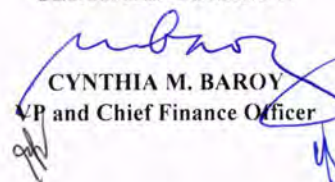


**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
(In Thousands, Except Per Share Data)

	<i>Note</i>	<i>For the Quarter Ended</i>			
		<b>2018</b>	2017	<b>2018</b>	<b>2017</b>
		<u>Unaudited</u>	Unaudited	<u>Unaudited</u>	Unaudited
SALES	4	P 17,914,670	P 15,329,671	P 5,869,127	P 5,205,213
COST OF SALES		<u>13,154,659</u>	<u>11,507,056</u>	<u>4,215,873</u>	<u>3,937,339</u>
GROSS PROFIT		4,760,011	3,822,615	1,653,254	1,267,874
SELLING AND MARKETING EXPENSES		(1,806,603)	(1,527,877)	(700,686)	(453,916)
GENERAL AND ADMINISTRATIVE EXPENSES		(1,625,482)	(1,419,355)	(486,653)	(489,103)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(164,695)	(220,049)	(54,917)	(67,918)
EQUITY IN NET LOSSES OF JOINT VENTURES		(63,688)	(69,568)	(8,539)	(28,144)
GAIN ON DISPOSAL / RETIREMENT OF PROPERTY AND EQUIPMENT		179	362	25	289
INTEREST INCOME		18,295	17,901	6,553	5,575
OTHER INCOME - Net		<u>56,610</u>	<u>57,542</u>	<u>10,214</u>	<u>26,603</u>
INCOME BEFORE INCOME TAX		1,174,627	661,571	419,251	261,260
INCOME TAX EXPENSE		<u>385,971</u>	<u>224,940</u>	<u>136,946</u>	<u>89,805</u>
NET INCOME		P <u>788,656</u>	P <u>436,631</u>	P <u>282,305</u>	P <u>171,455</u>
Basic and diluted earnings per share	5	P <u>2.63</u>	P <u>1.40</u>	P <u>0.94</u>	<u>0.56</u>

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

**CERTIFIED CORRECT:**

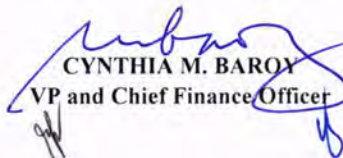
  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
(In Thousands)

	<u>2018</u>		<u>For the Quarter Ended</u>	
	<u>Unaudited</u>	<u>2017</u> <u>Unaudited</u>	<u>2018</u> <u>Unaudited</u>	<u>2017</u> <u>Unaudited</u>
NET INCOME	<b>P 788,656</b>	P 436,631	<b>P 282,305</b>	P 171,455
SHARE IN OTHER COMPREHENSIVE INCOME OF JOINT VENTURES THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	<u>27,087</u>	<u>60,059</u>	<u>10,672</u>	<u>17,634</u>
OTHER COMPREHENSIVE INCOME	<u>27,087</u>	<u>60,059</u>	<u>10,672</u>	<u>17,634</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<b>P 815,743</b>	P 496,690	<b>P 292,977</b>	P 189,089

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

CERTIFIED CORRECT:

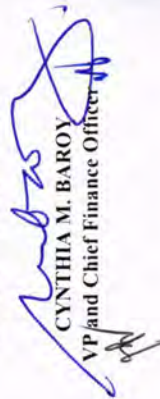
  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
(In Thousands)

	Equity Reserves										Total							
	Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Adjustments	Retained Earnings		Treasury Stocks		Total								
	Common	Preferred				Appropriated	Unappropriated	Common	Preferred									
As of January 1, 2018 (Audited)	P	345,625	P	53,438	P	2,539,454	P	25,343	P	2,500,000	P	2,641,390	P	(1,947,198)	P	(722,775)	P	5,013,933
Share in other comprehensive income of joint ventures		-		-		-		27,087		-		-		-		-		27,087
Net income		-		-		-		-		-		788,656		-		-		788,656
Total comprehensive income for the period		-		-		-		27,087		-		788,656		-		-		815,743
As of September 30, 2018 (Unaudited)	P	345,625	P	53,438	P	2,539,454	P	52,430	P	2,500,000	P	3,430,046	P	(1,947,198)	P	(722,775)	P	5,829,676
As of January 1, 2017 (Audited)	P	345,625	P	53,438	P	2,539,454	P	(41,589)	P	2,500,000	P	2,039,147	P	(1,947,198)	P	(722,775)	P	4,430,737
Share in other comprehensive income of joint ventures		-		-		-		60,059		-		-		-		-		60,059
Net income		-		-		-		-		-		436,631		-		-		436,631
Total comprehensive income for the period		-		-		-		60,059		-		436,631		-		-		496,690
As of September 30, 2017 (Unaudited)	P	345,625	P	53,438	P	2,539,454	P	18,470	P	2,500,000	P	2,475,778	P	(1,947,198)	P	(722,775)	P	4,927,427

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

CERTIFIED CORRECT:

  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer

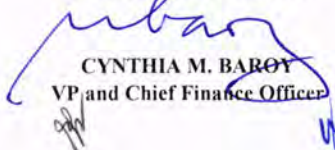


**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**  
(In Thousands)

	2018	2017
	Unaudited	Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P 1,174,627	P 661,571
Adjustments for:		
Depreciation and amortization	500,424	470,474
Interest expense and other financing charges	164,695	220,049
Retirement expense	68,565	68,560
Equity in net losses of joint ventures	63,688	69,568
Provision for impairment losses	26,711	1,151
Net derivative loss	11,916	13,993
Net unrealized foreign exchange gain (loss)	1,539	(315)
Gain on disposal / retirement of property and equipment - net	(179)	(362)
Interest income	(18,295)	(17,901)
Operating income before working capital changes	1,993,691	1,486,788
Decrease (increase) in:		
Trade and other receivables	122,058	560,077
Inventories	(271,267)	(600,693)
Prepaid taxes and other current assets	(201,073)	(54,017)
Increase (decrease) in:		
Trade and other payables	1,202,535	336,764
Other taxes payable	39,763	(30,124)
Cash generated from operations	2,885,707	1,698,795
Interest received	18,037	17,689
Income taxes paid	(42,729)	(366)
Contribution to retirement plan	(140,720)	(68,560)
Interest expense and other financing charges	(167,772)	(226,969)
Net cash flows provided by operating activities	2,552,523	1,420,589
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	2,761	362
Decrease (increase) in other noncurrent assets	(200)	28
Additions to property, plant and equipment	(203,514)	(141,030)
Net cash flows used in investing activities	(200,953)	(140,640)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Short-term borrowings	32,184,280	51,303,743
Long-term borrowings	992,500	-
Payments of:		
Short-term borrowings	(35,071,620)	(52,866,864)
Long-term borrowings	(114,285)	(85,714)
Cash dividends	(4)	-
Net cash flows used in financing activities	(2,009,129)	(1,648,835)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	(1,745)	325
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>340,696</b>	<b>(368,561)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>198,767</b>	<b>777,305</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P 539,463</b>	<b>P 408,744</b>

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

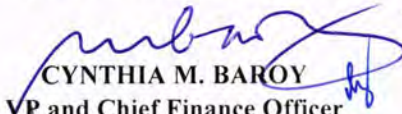
CERTIFIED CORRECT:

  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**TRADE AND OTHER RECEIVABLES**  
**SEPTEMBER 30, 2018 (UNAUDITED)**  
(In Thousands)

<b>TYPE OF ACCOUNTS RECEIVABLE</b>	<b>TOTAL</b>	<b>Current</b>	<b>&lt; 30 days past due</b>	<b>30 - 60 days past due</b>	<b>60 - 90 days past due</b>	<b>Over 90 days past due</b>
Trade Receivables P	796,937	516,549	14,993	9,611	5,143	250,641
Non-trade Receivables	1,183,560	203,230	64,608	25,964	17,891	871,867
<b>Total</b>	<b>1,980,497</b>	<b>719,779</b>	<b>79,601</b>	<b>35,575</b>	<b>23,034</b>	<b>1,122,508</b>
Less: Allowance for doubtful accounts	(387,590)	-	-	-	-	(387,590)
<b>NET RECEIVABLES P</b>	<b>1,592,907</b>	<b>719,779</b>	<b>79,601</b>	<b>35,575</b>	<b>23,034</b>	<b>734,918</b>

**CERTIFIED CORRECT:**

  
**CYNTHIA M. BAROY**  
VP and Chief Finance Officer



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

---

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

Ginebra San Miguel Inc. (GSMI) and its subsidiaries (collectively referred to as the "Group") prepared its interim consolidated financial statements as of and for the period ended September 30, 2018 and comparative financial statements for the same period in 2017 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, except for the changes in accounting policies as explained below.

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.

*New and Amended Standards and Interpretation Adopted in 2018*

The Group has adopted the following PFRS effective January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at financial assets at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.
- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of

PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect any significant impact except for the effect of applying the expected credit loss model in estimating impairment.

- *Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, Share-based Payment)*. The amendments cover the following areas: (a) Measurement of cash-settled awards: The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method; (b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in profit or loss.
- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The Group does not expect any significant impact in using the cumulative effect method.

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

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

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

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, SIC 15, *Operating Leases – Incentives*, and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard introduces a single lease, on-balance sheet lease accounting model for lessees. Under this model, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments and, subsequently, depreciates the right-of-use asset and recognizes interest on the lease liabilities in profit or loss. Leases with terms of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessor is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessor, however, discloses more information in the financial statements, particularly on the risks related to residual values of assets under the lease.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently performing detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as at January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

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

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

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

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

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

- Prepayment Features with Negative Compensation (*Amendments to PFRS 9*). The amendments cover the following areas: (a) *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.
- Long-term Interests (LTI) in Associates and Joint Ventures (*Amendments to PAS 28*). The amendments require the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendments explain the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI. The amendments are effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.
- Plan Amendment, Curtailment or Settlement (*Amendments to PAS 19, Employee Benefits*). The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.



The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:
  - Previously Held Interest in a Joint Operation (*Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

The amendments apply to business combinations for which the acquisition date is on or after January 1, 2019, with earlier application permitted.

- Income Tax Consequences of Payments on Financial Instrument Classified as Equity (*Amendments to PAS 12, Income Taxes*). The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

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

- Borrowing Costs Eligible for Capitalization (*Amendments to PAS 23, Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Amendments to References to the Conceptual Framework in IFRS Standards*. The amendments introduce the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in other comprehensive income; (c) guidance on the recognition and derecognition of assets and liabilities in the consolidated financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments are effective for annual periods beginning on or after January 1, 2020.



- PFRS 17, *Insurance Contracts*. PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply PFRS 9 and PFRS 15.

The new standard was approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

## 2. Property, Plant and Equipment

Property, plant and equipment consist of:

### September 30, 2018 and December 31, 2017

Cost	Land and Land Improvements		Buildings and Improvements		Transportation Equipment		Machinery and Equipment		Furniture, Fixtures and Other Equipment		Leasehold Improvements		Capital Projects in Progress		Total	
	P		P		P		P		P		P		P			
January 1, 2017 (Audited)	P	775,636	P	2,073,097	P	229,721	P	8,285,526	P	879,740	P	142,483	P	91,881	P	12,478,084
Additions		-		-		-		-		-		-		-		217,547
Reclassifications		8,310		38,545		56,204		74,408		32,970		14,323		(226,536)		(1,776)
Disposals / Retirement		(66)		(10,859)		(4,574)		(36,198)		(58,135)		-		-		(109,832)
December 31, 2017 (Audited)		783,880		2,100,783		281,351		8,323,736		854,575		156,806		82,892		12,584,023
Additions		-		-		19		19		45		-		203,450		203,514
Reclassifications		2,600		20,164		21,229		69,879		49,354		-		(169,471)		(6,245)
Disposals / Retirement		-		-		(9,014)		(61,400)		(1,274)		-		-		(71,688)
September 30, 2018 (Unaudited)	P	786,480	P	2,120,947	P	293,566	P	8,332,234	P	902,700	P	156,806	P	116,871	P	12,709,604

Accumulated Depreciation and Amortization		January 1, 2017 (Audited)		December 31, 2017 (Audited)		September 30, 2018 (Unaudited)		
	P			P		P		
January 1, 2017 (Audited)	P	186,143	P	970,261	P	179,952	P	4,714,670
Depreciation and amortization		6,260		74,035		19,633		424,172
Reclassifications		20		4,923		60		(8,491)
Disposals / Retirement		(66)		(10,859)		(4,574)		(33,739)
December 31, 2017 (Audited)		192,357		1,038,360		195,071		5,096,612
Depreciation and amortization		4,899		54,871		18,509		335,564
Reclassifications		-		-		(491)		(491)
Disposals / Retirement		-		-		(6,432)		(61,399)
September 30, 2018 (Unaudited)	P	197,256	P	1,093,231	P	207,148	P	5,370,286

Accumulated Impairment Losses		December 31, 2017		September 30, 2018		
	P			P		
December 31, 2017	P	-	P	-	P	-
September 30, 2018	P	-	P	-	P	-

Carrying Amount		December 31, 2017 (Audited)		September 30, 2018 (Unaudited)		
	P			P		
December 31, 2017 (Audited)	P	591,523	P	1,062,423	P	86,280
September 30, 2018 (Unaudited)	P	589,224	P	1,027,716	P	86,418

Carrying Amount		December 31, 2017 (Audited)		September 30, 2018 (Unaudited)		
	P			P		
December 31, 2017 (Audited)	P	591,523	P	1,062,423	P	86,280
September 30, 2018 (Unaudited)	P	589,224	P	1,027,716	P	86,418

September 30, 2017

Cost	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
January 1, 2017 (Audited)	P 775,636	P 2,073,097	P 229,721	P 8,285,526	P 879,740	P 142,483	P 91,881	P 12,478,084
Additions	-	-	-	-	-	-	141,030	141,030
Reclassifications	8,310	31,721	37,828	46,408	30,134	10,547	(168,180)	(3,232)
Disposals / Retirement	(66)	(4,519)	(3,901)	(24,862)	(54,968)	-	-	(88,316)
September 30, 2017 (Unaudited)	P 783,880	P 2,100,299	P 263,648	P 8,307,072	P 854,906	P 153,030	P 64,731	P 12,527,566
Accumulated Depreciation and Amortization								
January 1, 2017 (Audited)	P 186,143	P 970,261	P 179,952	P 4,714,670	P 726,748	P 36,054	-	P 6,813,828
Depreciation and amortization	4,637	56,332	13,458	317,494	31,252	3,492	-	426,665
Reclassifications	20	4,922	60	(7,246)	3	2,241	-	-
Disposals / Retirement	(66)	(4,519)	(3,901)	(24,863)	(54,968)	-	-	(88,317)
September 30, 2017 (Unaudited)	190,734	1,026,996	189,569	5,000,055	703,035	41,787	-	7,152,176
Accumulated Impairment Losses								
September 30, 2017	-	-	-	307,600	-	-	-	307,600
Carrying Amount								
September 30, 2017 (Unaudited)	P 593,146	P 1,073,303	P 74,079	P 2,999,417	P 151,871	P 111,243	P 64,731	P 5,067,790

Depreciation and amortization charged to operations amounted to P455,396 and P426,665 for the periods ended September 30, 2018 and 2017, respectively.

---

### 3. Long-term Debt

Long-term debt consists of:

	2018	2017
Fixed interest rate with maturity up to 2023 (a)	992,525	-
Floating interest rate based on PDST-R2 plus margin, with maturity up to 2018 (b)	-	114,285
	992,525	114,285
Less: Current maturities	57,349	114,285
	935,176	-

---

- a. On August 13, 2018, GSMI entered into a long-term, interest-bearing loan from a local bank amounting to P1,000,000 for the purpose of refinancing its existing short-term loan obligations. On September 24, 2018, the loan was drawn down from the credit facility. The loan is carried at amortized cost and bears annual interest rate at Philippine peso fixed-rate of 8.348%. The loan is payable for five years, in equal quarterly installments which will commence in September 2019.
- b. GSMI, through EPSBPI, has an unsecured, long-term interest bearing loan with a local bank amounting to P800,000. The proceeds of the loan was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

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

As at September 30, 2018, EPSBPI has fully paid its term note.

---

### 4. Related Party Disclosures

The Group, certain subsidiaries, joint ventures and entities under common control purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of September 30, 2018 and December 31, 2017:

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate Parent Company*	September 30, 2018	P 16,197	P 149,485	P 1,108	P -	On demand;	Unsecured;
	December 31, 2017	6,554	235,725	4,435	37,087	Non-interest bearing	No impairment
Under Common Control	September 30, 2018	324,771	3,566,866	187,871	658,297	On demand;	Unsecured;
	December 31, 2017	228,178	3,822,255	169,778	646,770	Non-interest bearing	No impairment
Joint Venture	September 30, 2018	-	-	574,708	22,347	On demand;	Unsecured;
	December 31, 2017	-	-	688,026	94,059	Interest bearing	No impairment
Retirement Plan	September 30, 2018	-	-	-	-	On demand;	Unsecured;
	December 31, 2017	-	-	-	-	Non-interest bearing	No impairment
Associate of the Intermediate Parent Company	September 30, 2018	-	-	-	1,081,500	3 months;	Unsecured;
	December 31, 2017	-	-	-	2,504,900	Interest bearing	No impairment
<b>Total</b>	<b>September 30, 2018</b>	<b>P 340,968</b>	<b>P 3,716,351</b>	<b>P 763,687</b>	<b>P 1,762,144</b>		
	<b>December 31, 2017</b>	<b>P 234,732</b>	<b>P 4,057,980</b>	<b>P 862,239</b>	<b>P 3,282,816</b>		

\* San Miguel Corporation (SMC) is the intermediate parent company of the Group.

- 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 Intermediate Parent Company include interest bearing loans to Bank of Commerce (BOC) presented as part of "Notes Payable" account in the consolidated statements of financial position.
- Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to P15,849, P10,572 and P21,785 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

## 5. Basic and Diluted Earnings Per Share (EPS)

Basic and Diluted EPS is computed as follows:

	September 30	
	2018	2017
Net income	P 788,656	P 436,631
Less: Dividends on preferred shares for the period	36,885	36,885
Net income available to common shares (a)	751,771	399,746
Weighted average number of common shares outstanding (in thousands) (b)	286,328	286,328
Basic and Diluted Earnings Per Share (a/b)	P 2.63	P 1.40



---

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

### Objectives and Policies

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

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

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

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

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

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

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility in the Group's corporate governance process relating to the: a) quality and integrity of the consolidated 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 consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Securities and Exchange Commission (SEC) and/or the Philippine Stock Exchange, Inc. (PSE).

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

The accounting policies in relation to derivatives are set out in Note 7 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 long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) P1,745 for the year ended December 31, 2017. 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, 2018	<1 year	1-2 years	>2-3 years	>3-4 years	>4-5 years	Total
<b>Fixed rate</b>						
Philippine peso-denominated	P 58,824	P 235,294	P 235,294	P 235,294	P 235,294	P 1,000,000
Interest rate	8.348%	8.348%	8.348%	8.348%	8.348%	
	P 58,824	P 235,294	P 235,294	P 235,294	P 235,294	P 1,000,000
<b>December 31, 2017</b>						
<b>Floating rate</b>						
Philippine peso-denominated	P 114,285	P -	P -	P -	P -	P 114,285
Interest rate	PDST-R2 margin or BSP overnight rate, whichever is higher					
	P 114,285	P -	P -	P -	P -	P 114,285

### 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, 2018		December 31, 2017	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	US\$382	P20,652	US\$228	P11,373
Trade and other receivables	22	1,164	20	1,020
Foreign currency-denominated monetary assets	US\$404	P21,816	US\$248	P12,393

The Group reported net foreign exchange gain (loss) amounting to (P1,539) and P315 for the periods ended September 30, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets. These mainly resulted from the movements of the Philippine peso against the United States (US) dollar as shown in the following table:

	US Dollar to Philippine Peso
<b>September 30, 2018</b>	<b>54.02</b>
December 31, 2017	49.93
September 30, 2017	50.82
December 31, 2016	49.72

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>September 30, 2018</b>				
Cash and cash equivalents	(P382)	(P268)	P382	P268
Trade and other receivables	(22)	(15)	22	15
	(P404)	(P283)	P404	P283

December 31, 2017	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	(P228)	(P160)	P228	P160
Trade and other receivables	(20)	(14)	20	14
	(P248)	(P174)	P248	P174

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

#### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

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

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

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

#### Liquidity Risk

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

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

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

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

September 30, 2018	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 539,463	P 539,463	P 539,463	P -	P -
Trade and other receivables - net	1,592,907	1,592,907	1,592,907	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	116	116	116	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	1,326	1,326	296	-	1,030
<b>Financial Liabilities</b>					
Notes payable	2,645,000	2,650,442	2,650,442	-	-
Accounts payable and accrued expenses (excluding derivative liabilities)	3,200,346	3,200,346	3,200,346	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	12,033	12,033	12,033	-	-
Long-term debt (including current maturities)	992,525	1,248,906	142,209	306,289	800,408

December 31, 2017	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 198,767	P 198,767	P 198,767	P -	P -
Trade and other receivables - net	1,714,662	1,714,662	1,714,662	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1,071	1,071	1,071	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	1,126	1,126	-	148	978
<b>Financial Liabilities</b>					
Notes payable	5,532,340	5,551,092	5,551,092	-	-
Accounts payable and accrued expenses (excluding derivative liabilities)	2,008,210	2,008,210	2,008,210	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	1,644	1,644	1,644	-	-
Long-term debt (including current maturities)	114,285	116,563	116,563	-	-



### Credit Risk

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

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

### Trade and Other Receivables

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

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

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty.

The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

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

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

	<b>September 30, 2018</b>	December 31, 2017
Cash and cash equivalents (excluding cash on hand)	<b>P 536,753</b>	P 196,427
Trade and other receivables - net	<b>1,592,907</b>	1,714,662
Derivative assets	<b>116</b>	1,071
Noncurrent receivables and deposits	<b>1,326</b>	1,126
	<b>P 2,131,102</b>	P 1,913,286

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

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

#### Capital Management

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

---

## **7. Financial Assets and Financial Liabilities**

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

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

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

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018*

*Financial Assets*

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. 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. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

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

*Financial Assets at FVOCI.* Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the statement of changes in equity are never reclassified to profit or loss.

The Group's investments in debt instruments and investments in equity instruments at FVOCI are classified under this category.

*Financial Assets at FVPL.* All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes all derivative financial assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, a financial asset may be irrevocably designated as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Changes in fair value 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. Any interest earned from investment in debt instrument is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable before January 1, 2018*

#### Financial Assets

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

The Group has no financial assets classified as AFS financial assets and HTM investments as of September 30, 2018 and December 31, 2017.

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

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



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

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

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

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

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

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

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

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

#### Financial Liabilities

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



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

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

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

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a

derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

*Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018*

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime expected credit losses for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

*Accounting Policies for the Impairment of Financial Assets Applicable before January 1, 2018*

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

### Debt Issue Costs

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

### Offsetting Financial Instruments

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

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	539,463	539,463	198,767	198,767
Trade and other receivables - net	1,592,907	1,592,907	1,714,662	1,714,662
Derivative assets (included under "Prepaid expenses and other current assets" account)	116	116	1,071	1,071
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	1,326	1,326	1,126	1,126
<b>Financial Liabilities</b>				
Notes payable	2,645,000	2,645,000	5,532,340	5,532,340
Accounts payable and accrued expenses (excluding derivative liabilities)	3,200,346	3,200,346	2,008,210	2,008,210
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	12,033	12,033	1,644	1,644
Long-term debt (including current maturities)	992,525	1,035,678	114,285	114,285

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

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

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



*Notes Payable and Accounts Payable and Accrued Expenses.* The carrying amount of notes payable and trade and other payables approximates fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debt.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rate used for Philippine peso-denominated loans is 4.31% - 7.43% and 3.00% as of September 30, 2018 and December 31, 2017. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments and Hedge Accounting

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

The Group uses derivative financial instruments, such as forwards and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

#### *Embedded Derivatives*

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

An embedded derivative is separated from the host contract and accounted for as a derivative if the host contract is not a financial asset and all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

The Group has not bifurcated any embedded derivatives as of September 30, 2018 and December 31, 2017.

#### Derivative Instruments not Designated as Hedges

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

#### *Embedded Currency Forwards*

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$11,677, US\$9,488 and US\$6,251 as of September 30 and



June 30, 2018 and December 31, 2017, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P11,916, P10,803 and P573 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

The Group recognized marked-to-market losses from embedded derivatives amounting to P25,372, P13,993, P17,246 and P12,510 for the periods ended September 30, 2018 and 2017, and June 30, 2018 and 2017, respectively.

#### Fair Value Measurements

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

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

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

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

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

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

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

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

#### Fair Value Hierarchy

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

The Group's derivative assets and derivative liabilities amounting to P116 and P12,033, respectively as of September 30, 2018, and P1,071 and P1,644, respectively as of December 31, 2017, 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.

---

## 8. 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. On September 10, 2018, SMC, San Miguel Food and Beverage, Inc. (SMFB) and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from an increase in SMFB's capital stock, and (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motions while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner.

The case is pending with the SEC to date.

- g. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of September 30, 2018.
- i. 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, 2018. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. ("the Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended September 30, 2017). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2018, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

**I. FINANCIAL PERFORMANCE****2018 vs. 2017**

The Group continued to deliver strong performance in the third quarter of 2018, posting a revenue of P17,915 million, 17% higher than prior year due to continuous improvement of volume of core brands Ginebra San Miguel and Vino Kulafu. Likewise, the Group was able to grow its gross profit by 25%.

Selling and administrative expenses increased by 16% due to increase in advertising and promotional expenses, distribution costs and personnel expenses.

Interest and financing charges dropped by 25% due to payment of short term and long term debt.

Income tax expense rose by 72% due to higher taxable income this year versus same period last year.

Consolidated net income as at the end of the third quarter of 2018 is at P789 million, 81% higher than same period last year.

**2017 vs. 2016**

Year to date revenue of P15,330 million improved by 16% from last year, which correspondingly increased the gross profit by 14% on account of the steady improvement of core brands Ginebra San Miguel and Vino Kulafu.

Selling and marketing expenses increased by 17% as a result of focused marketing strategies to support sales volume growth.

Continuous reduction of both short-term and long-term debts caused the drop in interest expense by 30% compared to last year.

Significant increase in tolling income contributed to the rise in other income by 36% against previous year. Conversely, share in net losses of Thai joint venture amounted to P70 million.

As a result of the Company's continuous effort to implement selling strategies and focused marketing campaigns, net income turnaround vs. last year is 84%, amounting to P437million.

## II. FINANCIAL POSITION

### 2018 vs. 2017

Continuous improvement of cash collection, through the shift of majority of customers to cash payment terms coupled by the improvement in collection, resulted to a decrease in accounts receivable from year ago by 7%, elevating cash and cash equivalents by 171% to P539 million as of September 2018.

Inventories increased by 8% on account of higher purchases of bunker fuel oil and alcohol to support increase in production volume towards end of the year. These higher purchases likewise increased the accounts payable and accrued expenses by 60% against last year.

Investments in joint ventures declined by 11% mainly due to Thai entity losses net of effect of exchange range fluctuation within the year. This has in turn caused equity's cumulative translation adjustment to double its amount versus last year.

Notes payable reduced by 52% as the company continued to settle its short-term obligations thru efficient collection and management of funds. Portion of the company's short-term loan was also converted to long-term, causing the increase in its noncurrent liabilities by 161%.

### 2017 vs. 2016

Total current assets decreased by 4% compared to last year, mainly due to the decrease in cash and cash equivalents and trade and other receivables. Majority of cash generated from sales collections were used to settle short-term and long-term debts.

Correspondingly, application of prior year's tax credits accounts for the decrease in deferred taxes by 26%.

On the other hand, trade and other payables increased by 18% as a result of additional purchase of raw materials, to support increase in sales towards the last quarter of 2017. This in turn, increased input taxes, which pulled down income and other taxes versus year ago by 22%.

### Equity

The increase in equity is due to:

	<b>September 30</b>	
	<b>2018</b>	<b>2017</b>
	<i>(In Millions)</i>	
Net income for the period	<b>P789</b>	P437
Share in other comprehensive income of joint ventures	<b>27</b>	60
	<b>P816</b>	P497



### III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
	2018	2017
	<i>(In Millions)</i>	
Net cash flows provided by operating activities	<b>P2,552</b>	P1,421
Net cash flows used in investing activities	<b>(201)</b>	(141)
Net cash flows used in financing activities	<b>(2,009)</b>	(1,649)

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

Net cash flows used in investing activities include the following:

	September 30	
	2018	2017
	<i>(In Millions)</i>	
Additions to property, plant and equipment	<b>(P204)</b>	(P141)
Proceeds from sale of property, plant and equipment	<b>3</b>	0

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

	September 30	
	2018	2017
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	<b>P32,184</b>	P51,304
Long-term borrowings	<b>993</b>	-
Payments of:		
Short-term borrowings	<b>(35,072)</b>	(52,867)
Long-term borrowings	<b>(114)</b>	(86)

The effect of exchange rate changes on cash and cash equivalents amounted to (P1.7) million and P0.33 million for the periods ended September 30, 2018 and 2017, respectively.

#### 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 I, "Financial Performance", for the discussion of certain computed Key Performance Indicators.

	September 2018	December 2018
Liquidity:		
Current Ratio	1.15	0.86
Solvency:		
Debt to Equity Ratio	1.30	1.66
Asset to Equity Ratio	2.30	2.66
Profitability:		
Return on Average Equity	15%	13%
Interest Rate Coverage Ratio	6.01	4.36

	Period Ended September 30	
	2018	2017
Operating Efficiency:		
Volume Growth	13%	14%
Revenue Growth	17%	16%
Operating Margin	7%	5%

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

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