

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

### INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter

GINEBRA SAN MIGUEL INC.

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

Metro Manila, Philippines

4. SEC Identification Number

142312

5. BIR Tax Identification Code

000-083-856-000

6. Address of principal office

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

Postal Code

1550

7. Registrant's telephone number, including area code

(+632) 841-5100

8. Date, time and place of the meeting of security holders

May 25, 2017, Thursday, 2:00 P.M. at Executive Dining Room, 2nd Floor, San Miguel  
Corporation-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

May 4, 2017

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

N/A

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA  
(information on number of shares and amount of debt is applicable only to corporate registrants):

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

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

Yes          No

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

Philippine Stock Exchange, Inc. - Common Shares

*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 17-5 - Information Statement for Annual or Special Stockholders' Meeting *References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules*

<b>Date of Stockholders' Meeting</b>	May 25, 2017
<b>Type (Annual or Special)</b>	Annual
<b>Time</b>	2:00 P.M.
<b>Venue</b>	Executive Dining Room, 2nd Floor, San Miguel Corporation - Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City
<b>Record Date</b>	Apr 17, 2017

#### Inclusive Dates of Closing of Stock Transfer Books

<b>Start Date</b>	Apr 18, 2017
<b>End date</b>	Apr 24, 2017

#### Other Relevant Information

Please see attached Definitive Information Statement of GSMI filed with the Securities and Exchange Commission on April 25, 2017.

**Filed on behalf by:**

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

# COVER SHEET

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S. E. C. Registration Number

G	I	N	E	B	R	A											
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I	N	C	.														

(Company's Full Name)

3 <sup>rd</sup>	&	6 <sup>th</sup>		F	L	R	S	.		S	A	N		M	I	G	U	E	L
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M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y				

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

CONCHITA P. JAMORA
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Contact Person

841-5100
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Company Telephone Number

1	2
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Month

3	1
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Day

SEC Form 20-IS Definitive Information Statement FORM TYPE
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Month  
Annual Meeting

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Day  
Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Total Amount of Borrowings

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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**GINEBRA SAN MIGUEL INC.**

**NOTICE OF THE REGULAR STOCKHOLDERS' MEETING**  
**May 25, 2017**

NOTICE is hereby given that the Regular Stockholders' Meeting of Ginebra San Miguel Inc. will be held on **Thursday, May 25, 2017, 2:00 P.M.** at the **Executive Dining Room, 2nd Floor, San Miguel Corporation (SMC) - Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on May 26, 2016
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Election of Directors
6. Appointment of External Auditor
7. Other Matters
8. Adjournment

Explanation for each agenda item is shown in the next page.

Only stockholders of record at the close of business hours on April 17, 2017 are entitled to notice and vote at this meeting. Registration will start at 12:30 P.M. and the registration booths will be closed at 2:00 P.M. For your convenience in registering your attendance in the meeting, please present some form of identification, such as passport, driver's license, or company I.D.

You are requested to personally attend the meeting. We are not asking you for a proxy and you are requested not to send us a proxy. However, should you be unable to attend, you may execute a proxy in favor of your representative. A sample of the proxy form is included in this notice for your reference. Proxies need not be notarized. The deadline for submission of proxies is on May 10, 2017. For stockholders, that are partnerships, corporations or associations, the proxy must be accompanied by a Secretary's Certificate setting out the authority of their designated proxies. Validation of proxies is on May 16, 2017 at 10:00 A.M. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.



**Virgilio S. Jacinto**  
Corporate Secretary

## **EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL**

### **Approval of the Minutes of the Regular Stockholders' Meeting held on May 26, 2016**

A copy of the draft Minutes of the 2016 Regular Stockholders' Meeting ("Minutes") of Ginebra San Miguel Inc. (the "Company") has been posted in the Company's website, <http://www.ginebrasanmiguel.com>, within five (5) days from the said meeting. A printed copy of the Minutes will also be available for examination during office hours at the Office of the Corporate Secretary located at the 7th Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City. Copies of the Minutes will also be made available for viewing at the registration area during this year's meeting.

### **Presentation of the Annual Report**

A Report on the performance of the Company in 2016, will be presented to the stockholders including the financial results and position of the Company. The Audited Consolidated Financial Statements of the Company as of December 31, 2016 form a part of the Information Statement that will be distributed to the stockholders entitled to vote during the 2017 Regular Stockholders' Meeting.

### **Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers**

Ratification by the stockholders will be obtained for all acts, resolutions and proceedings of the Board of Directors ("Board") and corporate officers of the Company since the Regular Stockholders' Meeting held on May 26, 2016 until May 25, 2017 as reflected in the minutes of the meetings of the Board of Directors, financial statements, reports, disclosures and records of the Company.

### **Election of Directors**

The Nomination and Hearing Committee, pursuant to its Duties and Responsibilities as set forth in the Nomination and Hearing Committee Charter and the Company's Amended Manual on Corporate Governance (the "Manual"), pre-screens and shortlists all candidates nominated to become a member of the Board, and determines if all the nominees have all the qualifications and none of the disqualifications set forth in the Company's Amended By-Laws, Manual and other applicable laws, rules and regulations, including the issuances of the SEC.

During the Nomination and Hearing Committee held on March 15, 2017, the Committee has determined that all nine (9) nominees are qualified to be directors of the Company. They will be presented for election to the Board by the stockholders during the Regular Stockholders' Meeting. The profiles of the said nominees are found in the Information Statement.

Every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock in his/her/its name in the books of the Company. However, in electing Directors, every stockholder is entitled to cumulate his/her/its votes in accordance with the provisions of law.

### **Appointment of External Auditor**

The Company's Audit Committee, pursuant to its Duties and Responsibilities as set forth in the Audit Committee Charter and the Manual, recommends to the Board the appointment of the Company's external auditor.

On March 15, 2017, the Audit Committee recommended to the Board the nomination of R.G. Manabat & Co. as the Company's external auditor for 2017. On the same date, the Board approved the said recommendation for approval of the stockholders during the 2017 Regular Stockholders' Meeting.

### **Other Matters**

Stockholders may propose to discuss and consider other relevant matters and concerns before the meeting adjourns.



## PROXY

The undersigned stockholder of GINEBRA SAN MIGUEL INC. (the "Company"), hereby appoints \_\_\_\_\_ or in his/her absence, the Chairman of the Meeting, as attorney-in-fact and proxy, to represent and vote all shares registered in his/her/its name at the Regular Meeting of the Stockholders of the Company scheduled on Thursday, May 25, 2017 at 2:00 P.M. at the Executive Dining Room, 2<sup>nd</sup> Floor, San Miguel Corporation-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, and any of its adjournment(s), as fully as the undersigned could do if present and voting in person, ratifying all actions taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below.

PROPOSAL	ACTION			
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION	FULL DESCRIPTION PROXY
1. Election of Directors for 2017				
The following are the nominees: Eduardo M. Cojuangco, Jr. Ramon S. Ang Bernard D. Marquez Francisco S. Alejo III Leo S. Alvez Gabriel S. Claudio Mario K. Surio Minita V. Chico-Nazario-Independent Director Aurora S. Lagman-Independent Director  <b>INSTRUCTIONS:</b> To withhold authority to vote for any individual nominee(s), please mark Exception box and list the name(s) under.				
	FOR	AGAINST	ABSTAIN	
2. Approval of the Minutes of the 2016 Regular Stockholders' Meeting				
3. Presentation and Approval of the Annual Report of the Company for the year ended December 31, 2016				
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers				
5. Appointment of R.G. Manabat and Co. as External Auditor of the Company for 2017				

Signed this \_\_\_\_ day of \_\_\_\_\_, 2017 at \_\_\_\_\_.

\_\_\_\_\_  
PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_  
SIGNATURE OF STOCKHOLDER/  
AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **MAY 10, 2017**. FOR STOCKHOLDERS, THAT ARE PARTNERSHIPS, CORPORATIONS OR ASSOCIATIONS, THE PROXY MUST BE ACCOMPANIED BY A SECRETARY'S CERTIFICATE SETTING OUT THE AUTHORITY OF THEIR DESIGNATED PROXIES. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:  
☐ Preliminary Information Sheet  
☒ Definitive Information Sheet
2. Name of Registrant as specified in its Charter:  
**GINEBRA SAN MIGUEL INC.**
3. Province, country and other jurisdiction of incorporation or organization:  
**Metro Manila, Philippines**
4. SEC Identification Number: **142312**
5. BIR Tax Identification Code: **000-083-856-000**
6. Address of principal office: Postal Code:  
**3<sup>rd</sup> and 6<sup>th</sup> Floors, San Miguel Properties Centre,** **1550**  
**St. Francis Street, Ortigas Center,**  
**Mandaluyong City, Philippines**
7. Registrant's telephone number, including area code: **(632) 841-5100**
8. Date, time and place of the meeting of stockholders:  

Date: **May 25, 2017, Thursday**  
Time: **2:00 P.M.**  
Place: **Executive Dining Room, 2<sup>nd</sup> Floor**  
**San Miguel Corporation-Head Office Complex**  
**No. 40 San Miguel Avenue, Mandaluyong City**
9. Approximate date of which the Information Statement is to be first sent or given to security holders:  
**May 4, 2017**

10. Securities registered pursuant to Sections 8 and 12 of the SRC:

<u>Title of Each Class</u>	<u>Authorized</u>	<u>Outstanding</u>
(As of March 31, 2017)		
Common	460,000,000	286,327,841
Preferred	<u>100,000,000</u>	<u>32,786,885</u>
	560,000,000	319,114,726

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

✓ Yes

       No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange, Inc. - Common Shares**



## **INFORMATION STATEMENT**

### **GENERAL INFORMATION**

#### **Date, Time and Place of Annual/Regular Meeting**

Date: **May 25, 2017, Thursday**  
Time: **2:00 P.M.**  
Place: **Executive Dining Room, 2<sup>nd</sup> Floor**  
**San Miguel Corporation (SMC)-Head Office Complex**  
**No. 40 San Miguel Avenue, Mandaluyong City**

The principal office of the Registrant is at 3<sup>rd</sup> and 6<sup>th</sup> Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City, Philippines.

The Information Statement is to be first sent to security holders approximately on **May 4, 2017**.

**We are not asking you for a proxy and you are requested not to send us a proxy.** However, if you cannot attend the meeting but would like to be represented thereat, please submit your proxy to the Office of the Corporate Secretary, at the 7<sup>th</sup> Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City. A sample proxy form is attached to this Information Statement for your reference. For corporate stockholders, please submit with the proxy a sworn certification of your resolutions evidencing authority of your designated proxies.

The deadline for submission of proxies is on May 10, 2017. Validation of proxies will be on May 16, 2017 at 10:00 A.M. at the SMC Stock Transfer Service Corporation Office, 2<sup>nd</sup> Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

#### **Dissenters' Right of Appraisal**

Stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action: amendment to the corporation's articles of incorporation which has the effect of changing and restricting the rights of any shareholder or class of shares; or of authorizing preferences in any respect superior to those of outstanding shares of any class; or of extending or shortening the term of corporate existence; sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporation's property and assets; merger or consolidation; and investment of corporate funds in another corporation or business for any purpose other than its primary purpose. The stockholders' right of appraisal may be exercised within a period of thirty (30) days from the date on which the vote on the corporate action was taken.<sup>1</sup>

There are no corporate matters or actions at the 2017 Regular Stockholders' Meeting of Ginebra San Miguel Inc. (the "Company" or "GSMI") that will entitle dissenting stockholders to exercise their right of appraisal as provided in the Corporation Code.

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<sup>1</sup> As provided in Sections 42, 81 and 82 of the Corporation Code.

## Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

## CONTROL AND COMPENSATION INFORMATION

### Voting Securities and Principal Holders Thereof

Number of shares outstanding as of March 31, 2016:

Common Shares:	286,327,841
Preferred Shares:	<u>32,786,885</u>
Total shares issued and outstanding:	319,114,726

All stockholders as of April 17, 2017 are entitled to vote at the Regular Stockholders' Meeting.

Every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock in his/her/its name in the books of the Company. However, in electing members to the Board of Directors (the "Board"), every stockholder is entitled to cumulate his/her/its votes in accordance with the provisions of law.<sup>2</sup>

### Security Ownership of Certain Record and Beneficial Owners

Owners of record of more than 5% of the Company's voting securities as of March 31, 2016 are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	San Miguel Corporation <sup>3</sup>	San Miguel Corporation	Filipino	216,972,000	78.27%
Preferred <sup>4</sup>				32,786,885	

<sup>2</sup> In accordance with Section 24 of the Corporation Code of the Philippines ("Code"), a stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

<sup>3</sup> The Board of Directors of San Miguel Corporation ("SMC") authorizes any Group A signatory, singly, or any two Group B signatories, jointly, to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Aurora T. Calderon and Sergio G. Edeza. The Group B signatories of SMC are Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Virgilio S. de Guzman, Lorenzo G. Formoso III, Almira C. Dalusung, Ma. Raquel Paula G. Lichauco, and Casiano Cabalan, Jr.



	No. 40 San Miguel Avenue, Mandaluyong City, parent company of the issuer				
Common	PCD Nominee Corporation (Filipino) Ground Floor, Makati Stock Exchange Ayala, Ave., Makati City <sup>5</sup>	various	Filipino	51,934,105	16.27%

As of March 31, 2017, there are 4,101,723 common shares which are owned by foreigners, which is only 1.29% of the Company's total outstanding shares.

The following are the number of shares of the Company's capital stock (all of which are voting shares) owned of record by the Chairman and Chief Executive Officer and directors of the Company as of March 31, 2017:

(1) Title of Class	(2) Name of Record Owner	(3) Amount and Nature of Ownership	(4) Citizenship	(5) Percent of Class
Common	Eduardo M. Cojuangco, Jr.	5,000 (r)	Filipino	0.00%
Common	Ramon S. Ang	5,000 (r)	Filipino	0.00%
Common	Francisco S. Alejo III	5,000 (r)	Filipino	0.00%
Common	Gabriel S. Claudio	5,000 (r)	Filipino	0.00%
Common	Bernard D. Marquez	30,000 (r)	Filipino	0.00%
Common	Leo S. Alvez	5,000 (r)	Filipino	0.00%
Common	Minita V. Chico Nazario	5,000 (r)	Filipino	0.00%
Common	Mario K. Surio	5,000 (r)	Filipino	0.00%
Common	Aurora S. Lagman	5,000 (r)	Filipino	0.00%

The aggregate number of shares owned of record by the Chairman and Chief Executive Officer, and directors of the Company as a group, as of March 31, 2016, is 70,000 shares or approximately 0.0219% of the Company's outstanding capital stock.

The aggregate number of shares owned of record by all officers and directors of the Company, as a group, as of March 31, 2017, is 383,000 shares or approximately 0.1200% of the Company's outstanding capital stock.

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days from options, warrants, conversion privileges or similar obligations or otherwise.

<sup>4</sup> The Preferred Shareholders shall be entitled to vote in the same manner as Common Shareholders in accordance with the Company's Amended Articles of Incorporation.

<sup>5</sup> Registered owner of shares held by participants in the Philippine Depository & Trust Corp., a private company organized to implement an automated book entry of handling securities in the Philippines.



## DIRECTORS AND EXECUTIVE OFFICERS

### Directors, Including Independent Directors and Nominees, and Executive Officers

The names of the 2016 directors, incumbent directors and nominees for election as directors for 2017, as well as the incumbent senior executive officers of the Company, who are all Filipinos, and their respective ages, periods of service, directorships in other companies and positions in the last five (5) years, are as follows:

**Eduardo M. Cojuangco, Jr.**, 81, is the Chairman of the Board of Directors (the "Board") and Chief Executive Officer of the Company, a position he has held since October 21, 1998. He is also the Chairman of the Company's Executive Committee. He also holds positions in the following companies listed with the PSE: Chairman of the Board and Chief Executive Officer of San Miguel Corporation; Chairman of the Board of San Miguel Pure Foods Company, Inc. and Petron Corporation. He is also the Chairman of the Board of Northern Cement Corporation, ECJ and Sons Agricultural Enterprises, Inc. and Eduardo Cojuangco, Jr. Foundation, Inc.; and Director of Caiñaman Farms, Inc. He was previously a director of various companies, including but not limited to Manila Electric Company, United Coconut Planters Bank and Coca-Cola Bottlers Philippines, Inc. He attended the College of Agriculture, University of the Philippines – Los Baños and California Polytechnic College in San Luis, Obispo, U.S.A. He is a recipient of the La Sallian Master Award for his exemplary leadership in Business (November 20, 2010) and Order of Madame de Maillefer (October 28, 2011) both given by the De La Salle University and Doctor of Humanities, Honoris Causa given by Tarlac State University.

**Ramon S. Ang**, 63, is the Vice Chairman of the Board of the Company and has been a Director of the Company since April 4, 2000. He is a Member of the Company's Executive Committee and the Chairman of the Executive Compensation Committee. He currently holds the following positions in the various subsidiaries of the Company: Chairman of the Board of Distileria Bago, Inc. and Ginebra San Miguel International Ltd.; and Director in Thai San Miguel Liquor Co., Ltd. He also holds positions in the following PSE-listed companies: Vice Chairman of the Board, President and Chief Operating Officer of San Miguel Corporation; Chief Executive Officer and President of Petron Corporation and Top Frontier Investment Holdings, Inc.; and Vice Chairman of the Board of San Miguel Pure Foods Company, Inc. His other current positions, include, among others, the following: Chairman of the Board and Chief Executive Officer of Petron Marketing Corporation and SMC Global Power Holdings Corp.; Vice Chairman of the Board of San Miguel Yamamura Phu Tho Packaging Co. Limited (Vietnam); Chairman of the Board and President of San Miguel Properties, Inc., San Miguel Consolidated Power Corporation, Rapid Thoroughfares Inc., and Bell Telecommunications Philippines, Inc.; Chairman of the Board of San Miguel Brewery Inc. and San Miguel Brewery Hongkong Limited (both listed in the Hong Kong Stock Exchange); San Miguel Foods, Inc., The Pure Foods Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Liberty Telecoms Holdings, Inc., Anchor Insurance Brokerage Corp., Sea Refinery Corporation, Philippine Diamond Hotel & Resort Inc. and Manila North Harbour Port, Inc.; and President of Northern Cement Corporation. Mr. Ang was previously the President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc., Director of Air Philippines Corporation, and Vice Chairman of the Board of Manila Electric Company. He has held directorships in various companies, including domestic and international subsidiaries of San Miguel Corporation in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

**Bernard D. Marquez**, 48, is a Director and the President of the Company since May 12, 2011 and is a Member of the Company's Executive Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is the incumbent President of the



Company's operating subsidiaries - Distileria Bago, Inc. and East Pacific Star Bottlers Phils Inc. He is also a Director of the following companies: Thai San Miguel Liquor Co., Ltd. (TSML), Thai Ginebra Trading, Siam Wine and Liquor Limited, and the following British Virgin Island (BVI) companies: Ginebra San Miguel International Ltd., GSM International Holdings Limited, Siam Holdings Limited and Global Beverage Holdings Limited. He previously held the following positions: Vice President and General Manager of TSML (January 2010-March 2011) and Vice President and General Manager of San Miguel Beverages, Inc. (March 2007-December 2009). He holds a degree in B.A. Economics from Ateneo de Manila University and a Master's degree in Business Management from the Asian Institute of Management (AIM Scientific Research Foundation Scholarship Awardee). He has also completed his academic units for Master in Public Administration at the University of the Philippines.

**Leo S. Alvez**, 74, has been a Director of the Company since April 24, 2002. He is also the Chairman of the Company's Nomination and Hearing Committee and a Member of the Company's Audit Committee and Executive Compensation Committee. He is also an incumbent Director of San Miguel Corporation, a company listed with the PSE. Retired Major General Alvez, a former Director of San Miguel Purefoods Company, Inc., has also held various positions in the government. He earned his Bachelor of Science Degree from the Philippine Military Academy and Masters in Business Administration from the University of the Philippines. He also attended various military education courses.

**Gabriel S. Claudio**, 62, has been a Director of the Company since November 11, 2010 and a Member of the Company's Nomination and Hearing Committee. He is presently the Vice Chairman of Risks and Opportunities Assessment Management, Inc.; Director of Philippine Amusement and Gaming Corporation, Rizal Commercial Banking Corporation, Lion's Club Pasig Host Chapter; and a Member of the Board of Trustees of Conflict Resolution Group Foundation, Inc., and TOBY's Sports and Youth Foundation, Inc. He was Chairman of the Board of Trustees of Metropolitan Waterworks and Sewerage System; Director of the Development Bank of the Philippines and Member of the Board of Directors of the Philippine Charity Sweepstakes Office. He also occupied several cabinet positions: Presidential Political Adviser to Presidents Fidel V. Ramos and Gloria Macapagal Arroyo, Presidential Legislative Adviser, Chief of the Presidential Legislative Liaison Office, Cabinet Officer for Regional Development (CORD) for Eastern Visayas and Acting Executive Secretary. He obtained his degree in AB Communications Arts from the Ateneo de Manila University and received the Most Outstanding Graduating Communications Arts Major award.

**Francisco S. Alejo III**, 68, is a Director of the Company since May 28, 2015 and is a Member of the Company's Executive Committee and Audit Committee. He is also the incumbent President of San Miguel Pure Foods Company, Inc., a company listed with the PSE. He also holds the following positions: Chairman of the Board and President of RealSnacks Mfg. Corp; Chairman of the Board of Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Purefoods (VN) Company Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp. and Philippine Prime Meat Marketing Corporation; Vice Chairman of the Board of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc., and Magnolia Inc. He is also a Director of the following private companies: San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International Limited (BVI). Mr. Alejo holds a Bachelor's Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

**Mario K. Surio**, 70, has been a Director of the Company since May 28, 2015 and a Member of the Company's Nomination and Hearing Committee. He is currently a Consultant of San Miguel Corporation. He was previously the President of CEMA Consultancy



Services, Inc. and Centech International, Inc. He also held the positions of Quality Control Head, Production Manager and Plant Manager in Northern Cement Corporation. Mr. Surio is a licensed Chemical Engineer having obtained his degree from the University of Sto. Tomas. He is an incumbent Member of the Philippine Institute of Chemical Engineers.

**Minita V. Chico-Nazario**, 77, is an Independent Director of the Company since March 9, 2012. She is the Chairperson of the Company's Audit Committee and Member of its Executive Compensation Committee. She is also an Independent Director of PSE-listed companies, Top Frontier Investment Holdings, Inc. and San Miguel Pure Foods Company, Inc., and private company, San Miguel Properties, Inc. She is currently a Director of Mariveles Grains, Inc.; Legal Consultant of United Coconut Planters Bank and Tan, Acut, Lopez and Pison Law Offices; and Dean of the College of Law of the University of Perpetual Help System DALTA in Las Piñas City. She previously held the following positions: Legal Consultant of Philippine Amusement and Gaming Corporation (January 2010-June 2010) and Metro Manila Development Authority (March 2010-June 2010); and Chairman of the Board of Directors (June 2010-August 2010) and Director (September 2010-September 2011) of PNOX Exploration Corporation. She served the judiciary in various capacities for forty-seven (47) years, as Presiding Justice of the Sandiganbayan (February 2003-February 2004) and Associate Justice of the Supreme Court (February 10, 2004-December 5, 2009). She obtained her law degree from the University of the Philippines and is a member of the New York State Bar.

**Francisco H. Villaruz, Jr.**<sup>6</sup>, 73, had been an Independent Director of the Company and a Member of the Audit Committee and Nomination and Hearing Committee since November 6, 2014 until his demise on October 30, 2016. He was also a former Independent Director of South Luzon Tollway Corporation (since March 16, 2015). He served the judiciary as Associate Justice in Sandiganbayan (October 8, 2001 – October 9, 2011) and as Presiding Justice (October 10, 2011 – June 8, 2013). He was previously appointed as Director of the Securities and Exchange Commission. He obtained his law degree from the University of the Philippines and was a member and officer of the Order of The Purple Feather (UP Law Honor Society). He attended various trainings, seminars and conferences in the Philippines and abroad.

**Aurora S. Lagman**,<sup>7</sup> 78, is an Independent Director of the Company since March 15, 2017 and a Member of the Audit Committee and Nomination and Hearing Committee. She is a part-time faculty member of the College of Law, Bulacan State University, a Member of the Board of Trustees of Society for Judicial Excellence, and adviser of RTC Judges Association of Bulacan, Inc. Justice Lagman, Among others, she previously held the following positions: Member, Judicial and Bar Council (October 13, 2008 - July 9, 2016); Associate Justice, Court of Appeals (February 4, 2004- January 15, 2008); and Judge, Regional Trial Court, Branch 77, Malolos, Bulacan (May 11, 1994 - February 3, 2004). She obtained her law degree at the College of Law of Lyceum of the Philippines and attended special studies and short courses abroad. She also attended various domestic and foreign trainings, seminars and conferences.

**Virgilio S. Jacinto**, 60, is the Company's Corporate Secretary and Compliance Officer since November 11, 2010. He also holds, among others, the following positions in the following PSE-listed companies: Senior Vice-President, General Counsel, Corporate Secretary and Compliance Officer of San Miguel Corporation, Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc., and Director of Petron Corporation. He is also a Director and Corporate Secretary of various domestic and international subsidiaries of the San Miguel Corporation group. He has served as a Director

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<sup>6</sup> Ceased to be a director upon his demise on October 30, 2016. This matter was reported to the SEC through SEC Form 17-C filed on November 2, 2016.

<sup>7</sup> Director Lagman was elected to serve the unexpired term of Director Villaruz.



and Corporate Secretary of United Coconut Planters Bank and a Director of San Miguel Brewery Inc., to name a few. He is an Associate Professor at the College of Law of the University of the Philippines. Atty. Jacinto obtained his law degree from the University of the Philippines where he was class salutatorian and placed sixth in the 1981 Bar Examinations. He holds a Master of Laws degree from Harvard University and a member of the International Honor Society of the PHI KAPPA PHI and Harvard Club (Philippines).

**Cynthia M. Baroy**, 53, is the Assistant Vice President and Chief Finance Officer of the Company. She is also a Director and Treasurer of Distileria Bago, Inc. (DBI) and East Pacific Star Bottlers Phils Inc., which are domestic operating subsidiaries of the Company. She is also an incumbent Director of the following foreign subsidiaries of the Company: GSM International Holdings Limited (BVI), Siam Holdings Limited (BVI), Global Beverage Holdings Limited (BVI), Siam Wine and Liquor Limited, and Thai Ginebra Trading Co., Ltd. She is also a Member of the Board of Trustees of the Retirement Plan of the Company and DBI. She previously held the following positions: Financial Planning and Analysis Manager of San Miguel Yamamura Packaging Corporation; Finance Manager of Metal Closures & Lithography Business; and, Finance Manager of San Miguel Rengo Packaging Corporation. Ms. Baroy obtained her B.S. Commerce major in Accounting from the University of Sto. Tomas where she graduated Cum Laude. She is a Certified Public Accountant.

**Nelson S. Elises**, 58, is a Vice President of the Company. He is also a Director of GSM International Holdings Limited. Mr. Elises' work experience includes: Marketing and Distribution Manager, Assistant Vice President and National Sales Manager and Area Sales Manager of the Company; Sales and Sales Services Manager of Philippine Beverage Partners, Inc.; and General Manager for Sugarland Corporation. Mr. Elises obtained his Business Economics degree and Master's in Business Administration from the University of the Philippines.

**Emmanuel B. Macalalag**, 51, is the Assistant Vice President and Manufacturing Operations Group Manager of the Company. He is currently a Director of the following domestic operating subsidiaries of the Company: Distileria Bago, Inc. (DBI) and East Pacific Star Bottlers Phils Inc. and incumbent Director of Thai Ginebra Trading Co., Ltd., a foreign subsidiary of the Company. He previously held the following positions in the Company: Planning and Management Services Manager, Business Planning and Development Manager and Business Planning and Investor Relations Manager. Mr. Macalalag obtained his Bachelor's and Master's Degrees in Science, Major in Mathematics from De La Salle University and his PhD degree in Operations Research from the University of Melbourne, Australia.

**Rosalina A. Lioanag**, 53, has been the Assistant Vice President and Business Procurement Group Manager of the Company until her temporary assignment to the Corporate Procurement Group of San Miguel Corporation on November 1, 2016. Ms. Lioanag was previously the Company's Product Supply and Planning Manager, Non-Alcoholic Beverages Sales Manager, Supply Chain Group Manager, Supply Chain Area Operations for North Luzon and Logistics Manager. She is also an Assistant Professor in the University of Sto. Tomas, Department of Chemical Engineering. She obtained her Bachelor of Science in Chemical Engineering degree from the University of the Philippines and her Master's degrees in Chemical Engineering and Business Administration, both from the University of the Philippines. Ms. Lioanag is a licensed Chemical Engineer.

#### **Term of Office**

Pursuant to the Company's Amended By-Laws, the directors are elected at each regular meeting of the stockholders by the stockholders entitled to vote. Unless he/she



resigns, dies or is removed, each director holds office until the next annual election and until his/her successor is duly elected and qualified.

The nominees for election to the Board on May 25, 2017 are the following:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Bernard D. Marquez
4. Francisco S. Alejo III
5. Leo S. Alvez
6. Gabriel S. Claudio
7. Mario K. Surio
8. Minita V. Chico-Nazario – Independent Director
9. Aurora S. Lagman – Independent Director

All nominations for the election of directors by the stockholders shall be submitted in writing to the Board through the Corporate Secretary on or before January 20 or at such earlier or later date that the Board may fix.

Under Section 3, Article II of the Company's Amended By-Laws, (i) any stockholder having at least five thousand (5,000) shares registered in his/her/its name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 3, Article II of the Company's Amended By-Laws, is not qualified or eligible for nomination or election to the Board.

The Nomination and Hearing Committee, pursuant to its Duties and Responsibilities as set forth in the Nomination and Hearing Committee Charter and the Company's Amended Manual on Corporate Governance (the "Manual") pre-screens and shortlists all candidates nominated to become a member of the Board, and determines if all the nominees have all the qualifications and none of the disqualifications set forth in the Company's Amended By-Laws, Manual and other applicable laws, circulars, rules and regulations, including the issuances of the SEC.

During the Nomination and Hearing Committee Meeting held on March 15, 2017, the Committee has determined that all nine (9) nominees are qualified for election as directors during the 2017 Regular Stockholders' Meeting.

#### ***Independent Directors***

The Company has two (2) Independent Directors in 2016, Directors Minita V. Chico Nazario and Francisco H. Villaruz, Jr.<sup>8</sup>. On March 15, 2017, Director Aurora S. Lagman was elected vice Director Villaruz. All the Company's Independent Directors apart from their fees and shareholdings, have no business or relationship with the Company, which could or could reasonably be perceived to materially interfere with the exercise of their independent judgment in carrying out their responsibilities as directors.

The following are the incumbent Independent Directors of the Company, who are also nominated for re-election on May 25, 2017:

<b>Nominee for Independent Director (a)</b>	<b>Person/Group recommending nomination (b)</b>	<b>Relation of (a) and (b)</b>
Minita V. Chico-Nazario	Ramon S. Ang	None
Aurora S. Lagman	Ramon S. Ang	None

<sup>8</sup> Ceased to be a director upon his demise on October 30, 2016.

In approving the nominations for Independent Directors, the Nomination and Hearing Committee took into consideration the guidelines on the nomination of Independent Directors prescribed in Rule 38 of the Securities Regulation Code ("SRC"), its Implementing Rules and Regulations, as well as applicable issuances of the Securities and Exchange Commission ("SEC").

The foregoing directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The respective Certificates of Qualification (Certificates)<sup>9</sup> of the said directors are attached hereto as Annexes "A-1" and "A-2", respectively. Within thirty (30) days from re-election, the said directors will submit anew their respective Certificates.

### **Significant Employees**

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

### **Family Relationships**

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the directors, executive officers, or nominees for election as directors.

### **Certain Relationships and Related Transactions**

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) not in the ordinary course of business. The Company observes an arm's length policy in its dealings with related parties.

### **Parent Company**

As of March 31, 2017, San Miguel Corporation owns 78.27% of the shares of the Company.

### **Involvement in Certain Legal Proceedings**

None of the directors, nominees for election as director, executive officers or control persons of the Company have been involved in the following legal proceedings, including being the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his/her involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is

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<sup>9</sup> The attached Certificates are compliant with the form prescribed in SEC Memorandum Circular No. 5, Series of 2017 dated 07 March 2017.



material to the evaluation of his/her ability or integrity to hold the relevant position in the Company.

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table summarizes the aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Company's President and senior executive officers:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the President and Senior Executive Officers <sup>10</sup>	2017	P30.7	P8.8	P8.4	P47.9
	(estimated)	Million	Million	Million	Million
	2016	P29.0	P14.7	P8.2	P51.9
		Million	Million	Million	Million
	2015	P28.6	P14.0	P8.3	P50.9
		Million	Million	Million	Million
All other officers and directors as a group unnamed	2017	P40.9	P10.9	P13.0	P64.8
	(estimated)	Million	Million	Million	Million
	2016	P28.2	P14.3	P10.4	P52.9
		Million	Million	Million	Million
	2015	P30.8	P15.4	P11.2	P57.4
		Million	Million	Million	Million
TOTAL	2017	P71.6	P19.7	P21.4	P112.7
	(estimated)	Million	Million	Million	Million
	2016	P57.2	P29.0	P18.6	P104.8
		Million	Million	Million	Million
	2015	P59.4	P29.4	P19.5	P108.3
		Million	Million	Million	Million

Article II, Section 9 of the Amended By-Laws of the Company provides that the members of the Board shall receive such compensation as may be approved by a majority vote of the stockholders at a regular or special meeting duly called, subject to such limitations as may be imposed by law.

In 2016, each director received a per diem of Ten Thousand Pesos (P10,000.00) per attendance at Board and Board Committee meetings of the Company. There were five (5) Board, four (4) Audit Committee and one (1) Nomination and Hearing Committee meetings that were held in 2016.

There were no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, during the last fiscal year, and the ensuing fiscal year.

<sup>10</sup> The President and senior officers of the Company from 2015 are the following: Bernard D. Marquez, Clemente O. Alburo (retired from the Company effective at the close of the business hours of December 31, 2016 as disclosed by the Company through SEC Form 17-C filed on January 12, 2016), Rosalina A. Lioanag, Cynthia M. Baroy and Nelson S. Elises. For 2016, the President and senior officers of the Company are the same as previous years, except for the exclusion of Mr. Alburo and inclusion of Mr. Emmanuel B. Macalalag. For 2017, the President and senior officers of the Company are Bernard D. Marquez, Cynthia M. Baroy, Nelson S. Elises, Emmanuel B. Macalalag and Allan P. Mercado. Mr. Eduardo M. Cojuangco, Jr., the Chairman of the Board and Chief Executive Officer of the Company, does not receive compensation from the Company other than the per diem for attendance in Board meetings.

The named executive officers of the Company, just like other full-time and permanent employees of the Company, subject to certain requirements,<sup>11</sup> are eligible to subscribe to Company shares under the Company's Employees Stock Purchase Plan (the "Plan"). As of March 31, 2017, the current named officers have an aggregate subscription of 189,500 shares under the Plan.

The Plan was intended primarily to promote a sense of ownership and greater work commitment among employees of the Company and its subsidiaries. Three Million (3,000,000) shares from the Company's authorized and unissued shares were reserved for the Plan. The subscription price per share under the Plan is equal to the weighted average market closing prices of the last quarter immediately preceding the application/subscription period, less a discount of fifteen percent (15%). The shares covered by the Plan are no longer available for subscription as the offering period provided under the Plan expired on January 21, 2013.

There were no employment contracts between the Company and a named executive officer.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

### **ACTION WITH RESPECT TO REPORTS**

The approval of the following will be considered and acted upon at the Regular Meeting of the Stockholders:

1. Minutes of the 2016 Regular Stockholders' Meeting with the following items:
  - a) Approval of the Minutes of the Regular Stockholders' Meeting held on May 28, 2015
  - b) Presentation of the Annual Report
  - c) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
  - d) Election of Directors
  - e) Appointment of External Auditor

A copy of the draft Minutes of the 2016 Regular Stockholders' Meeting ("Minutes") has been posted in the Company's website, <http://www.ginebrasanmiguel.com>, within five (5) days from the said meeting. A printed copy of the Minutes will also be available for examination during office hours at the Office of the Corporate Secretary located at the 7th Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City. Copies of the Minutes will also be made available for viewing at the registration area during this year's meeting.

2. Annual Report of the Company for the year ended December 31, 2016.
3. Ratification of all the acts of the Board of Directors and Officers since the 2016 Regular Stockholders' Meeting, adopted in the ordinary course of business, including those

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<sup>11</sup> All full-time and permanent employees of the Company and its subsidiaries, who have rendered at least one (1) year of continuous service on a regular status (one year after regularization) at the Exercise Date (defined under the Plan), are entitled to subscribe to shares of the capital stock of the Company under the Plan, subject to the terms and conditions provided therein, which subscription shall be subject to the employees' credit profile. Members of the Board who are not employees of the Company or its subsidiaries are not eligible to participate in the Plan.



disclosed with the SEC and the PSE, such as the Election of Officers and Board Committee Membership<sup>12</sup>.

<sup>12</sup> The Company filed its SEC Form 17- relative to the Election of Officers and Board Committee membership. The relevant disclosure is quoted hereunder:

Item 4. Resignation, Removal or Election of Registrant's Directors or Officers  
(Filed on May 26, 2016)

2. At the Organizational Meeting of the Board, the following officers were elected.

Eduardo M. Cojuangco, Jr.	: Chairman and Chief Executive Officer
Ramon S. Ang	: Vice Chairman
Bernard D. Marquez	: President
Virgilio S. Jacinto	: Corporate Secretary and Compliance Officer
Cynthia M. Baroy	: Treasurer
Conchita P. Jamora	: Assistant Corporate Secretary
Orlando A. Santiago	: Assistant Corporate Secretary

Of the aforementioned officers, Ms. Baroy and Atty. Jamora have 30,000 shares each in the Company. On the other hand, Attys. Jacinto and Santiago do not own shares in the Company.

In the same meeting, the following were elected as chairpersons and members of the following Board Committees:

Executive Committee

1. Eduardo M. Cojuangco, Jr. – Chairman
  2. Ramon S. Ang
  3. Bernard D. Marquez
  4. Francisco S. Alejo III
- Ferdinand K. Constantino – Non-Director Member

Audit Committee

1. Minita V. Chico-Nazario – Chairperson
  2. Leo S. Alvez
  3. Francisco S. Alejo III
  4. Francisco H. Villaruz, Jr.
- Ferdinand K. Constantino – Non-Director Member

Executive Compensation Committee

1. Ramon S. Ang – Chairman
  2. Bernard D. Marquez
  3. Leo S. Alvez
  4. Minita V. Chico-Nazario
- Ferdinand K. Constantino – Non-Director Member

Nomination and Hearing Committee

1. Leo S. Alvez – Chairman
  2. Bernard D. Marquez
  3. Gabriel S. Claudio
  4. Francisco H. Villaruz, Jr.
  5. Mario K. Surio
- Casiano B. Cabalan, Jr. – Ex Officio Member

## VOTING PROCEDURES

In all items for approval, each share of stock (whether common or preferred) entitles its registered owner as of April 17, 2017, to one vote.

In the election of directors, the nine (9) nominees with the greatest number of votes will be elected directors. A stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

The approval of the other proposals or matters submitted to a vote will require an affirmative vote of the stockholders representing the majority of the shares of stock present or represented by proxy at the meeting.

Counting of the Ayes and Nays or a show of hands will be the method by which votes will be counted. The Corporate Secretary, with the assistance of SMC Stock Transfer Service Corporation, as the Company's stock transfer agent, is authorized to count any votes cast during the meeting.

## FINANCIAL AND OTHER INFORMATION

### **Brief Description of the General Nature and Business of the Company**

Ginebra San Miguel Inc. (the "Company" or "GSMI"), a majority-owned subsidiary of San Miguel Corporation ("SMC"), whose ultimate parent company is Top Frontier Investment Holdings, Inc. ("Top Frontier"), has been engaged in the manufacture and sale of alcoholic and non-alcoholic beverages (NAB) until it disposed of its NAB assets in favor of San Miguel Brewery Inc. in April 2015. The NAB assets pertain to property, plant and equipment, as well as other finished goods and other inventories.

The Company was formed on July 10, 1987 as the legal entity for the acquisition by SMC of the production assets of an existing liquor production company that had been in operation since 1902. Today, the Company operates three (3) liquor bottling facilities located in the following areas: (1) Mandaue City, Cebu; (2) Sta. Barbara, Pangasinan; and (3) Cabuyao, Laguna.

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

Aside from primarily manufacturing and selling its own liquor products, the Company also toll-manufactures for third parties for the production of the latter's alcoholic and non-alcoholic beverages.

### *Domestic Subsidiaries and Operations*

Of the Company's domestic subsidiaries, the significant ones are those that have been in operation for more than three (3) years. These are Distileria Bago, Inc. (DBI) and East Pacific Star Bottlers Phils Inc. ("EPSBPI").

DBI owns a distillery located in Bago City, Negros Occidental, that converts sugar cane molasses into alcohol. It became a wholly-owned subsidiary of the Company in 1996.



On August 14, 2009, DBI amended its Articles of Incorporation to include among its primary purposes, the manufacture, production and tolling of not only distilled alcohol but also other kinds of alcohol and their by-products.

EPSBPI, on the other hand, is principally engaged in the toll-manufacture and bottling of alcoholic and non-alcoholic beverages. It was purchased by the Company on January 27, 2012. The acquisition forged synergies with the Company's on-going operations and provided additional capacity for the contemplated expansion plans of the Company. EPSBPI owns bottling facilities in Cauayan, Isabela and in Ligao City, Albay, which are currently being used principally in connection with the Company's liquor business.

In August 2015, the Company sold certain properties located in Calumpit, Bulacan and Tagoloan, Misamis Oriental. The Company recognized gain included as part of "Gain on sale of property and equipment" account in the 2015 consolidated statements of income.

#### *International Subsidiaries/Affiliates and Operations*

To fast-track entry into regional markets, the Company in November 2004 entered into a Share Purchase Agreement ("SPA") with the Thai Life Group of Companies (the "Thai Life") for the purchase of 40% ownership of the outstanding shares of C.N.T. Wine and Liquor Company Limited ("CNT"), a limited company organized under the laws of Thailand. CNT possesses a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets. Also, on the same date, the Company and Thai Life entered into a Joint Venture Agreement ("JVA"). The JVA established the terms and conditions regarding the ownership and operation of CNT and the joint control rights, obligations and responsibilities of the Company and Thai Life, as stockholders. In November 2004, the Company incorporated Ginebra San Miguel International Limited ("GSMIL") and subsequently assigned its rights and obligations under the SPA and the JVA to GSMIL, including its rights to purchase 40% ownership of the outstanding shares of CNT. The acquisition of CNT was completed in December of the same year. CNT was later renamed Thai San Miguel Liquor Co., Ltd. ("TSML").

On June 29, 2007, the Company incorporated GSM International Holdings Ltd. ("GSMIHL"), a wholly-owned subsidiary in Thailand. GSMIHL holds 40% of the shares of Thai Ginebra Trading Co., Ltd. ("TGT"), another joint venture company formed with Thai Life. TGT functions as the selling and distribution arm of TSML.

On August 27, 2008 and September 11, 2008, the Company incorporated Global Beverage Holdings Limited ("GBHL") and Siam Holdings Limited ("SHL"), respectively, as its wholly-owned subsidiaries. Both are entities established as holding companies for the acquisition of additional investment in TSML and TGT.

On October 14, 2008, SHL acquired 49% ownership of the outstanding shares of Siam Wine and Liquor Ltd. ("SWL"), a limited company organized under the laws of Thailand. On the same date, SWL acquired 10% ownership of the outstanding capital stock of TSML and TGT. Accordingly, the share in TSML and TGT of the Company and its subsidiaries was increased from 40% to 44.9%.

#### **Financial Statements**

The audited Consolidated Financial Statements of the Company as of December 31, 2016 with Auditor's Report and Statement of Management's Responsibility are attached hereto as **Annex "B"**.

## Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2016 is attached hereto as **Annex "C"**.

## Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There are no disagreements with accountants on accounting and financial disclosures.

## Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

The Company's common equity is traded in the PSE.

The Company's high and low closing prices for each quarter of the last three (3) fiscal years are as follows:

Quarter	2017		2016		2015	
	High	Low	High	Low	High	Low
1 <sup>st</sup>	13.00	12.10	13.50	11.00	15.88	14.00
2 <sup>nd</sup>	-	-	17.98	11.80	15.28	13.30
3 <sup>rd</sup>	-	-	13.48	11.90	14.00	12.00
4 <sup>th</sup>	-	-	13.50	11.90	12.50	12.28

The closing price of the Company's common shares as of April 4, 2017, the latest practicable date, is P12.14.

The approximate number of shareholders of common shares as of March 31, 2017 is 722.

No dividend declarations were made in 2014, 2015 and 2016.

The Company has not sold any unregistered securities or exempt securities, including issuance of securities constituting an exempt transaction, within the past three (3) fiscal years. Previously, common shares were issued by the Company under its Employee Stock Purchase Plan (the "Plan"), which as confirmed by the SEC in its Resolution dated January 21, 2008, to be exempt from the registration requirement of the SRC. The shares covered by the Plan are no longer available for subscription as the offering period provided under the Plan expired on January 21, 2013.

The top 20 stockholders of the Company as of March 31, 2016 are as follows:

Rank	Name of Stockholders	Common	Preferred	Total No. of Shares	% of Total O/S
1	San Miguel Corporation	216,972,000	32,786,885	249,758,885	78.27%
2	PCD Nominee Corporation (Filipino)	51,934,105	0	51,896,605	16.27%
3	Ginebra San Miguel Inc. Retirement Plan	9,943,285	0	9,943,285	3.12%
4	PCD Nominee Corporation (Non-Filipino)	4,060,522	0	4,059,522	1.27%
5	La Suerte Cigar &	200,000	0	200,000	0.06%



	Cigarette Factory				
6	Lim Tay	80,000	0	80,000	0.03%
7	Pua Yok Bing	55,000	0	55,000	0.02%
8	Rosalina A. Lioanag	51,500	0	51,500	0.02%
9	Dar B. Licanel	51,500	0	51,500	0.02%
10	Roman T. Yap	50,000	0	50,000	0.02%
11	Emmanuel B. Macalalag	46,500	0	46,500	0.01%
12	Leonardo P. Bico	46,500	0	46,500	0.01%
13	Teodorico T. Lasin	36,500	0	36,500	0.01%
14	Ritche B. Morta	35,000	0	35,000	0.01%
15	Nelson S. Elises	31,500	0	31,500	0.01%
16	Isabel C. Suntay	31,000	0	30,000	0.01%
17	Kerwin P. Santos	30,000	0	30,000	0.01%
18	FMF Development Corp.	30,000	0	30,000	0.01%
19	Cynthia M. Baroy	30,000	0	30,000	0.01%
20	Noel D. Sotiangco	30,000	0	30,000	0.01%

### Independent Public Accountants

R.G. Manabat & Co. (formerly Manabat Sanagustin & Co., CPAs) has been the Company's external auditor since 2006. Compliant with Part I (3) (b) (ix) of SRC Rule 68, as amended, with respect to the re-engagement of the said audit firm, the Company consistently observes the rule on rotation for the signing partner every after five (5) years.

Fees for the services rendered by the external auditor to the Company and its subsidiaries in connection with the Company's annual financial statements and other statutory and regulatory filings for 2016 and 2015 (inclusive of retainer fees and out-of-pocket expenses) amounted to about P 7 million per year.

The Company's Audit Committee, pursuant to its Duties and Responsibilities as set forth in the Audit Committee Charter and the Company's Manual, recommends to the Board the appointment of the Company's external auditor. The Audit Committee also reviews the terms of engagement and scope of services of the external auditor and endorses the same for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditor

On March 15, 2017, the Board, upon endorsement of the Audit Committee, nominated R.G. Manabat & Co. as the Company's external auditor for 2017. The said nomination shall be recommended for approval of the stockholders during the Regular Stockholders' Meeting on May 25, 2017. The representatives of the said audit firm are expected to be present during the said meeting and will be available to respond to appropriate questions, if necessary. They will also have the opportunity to make a statement, if they so desire.

### Compliance with leading practice on Corporate Governance

Recognizing that good corporate governance plays a vital role in creating and sustaining shareholder value, the Company on August 6, 2002, institutionalized the principles of good corporate governance in the entire organization by establishing and implementing the Company's Amended Manual on Corporate Governance (the "Manual").

On March 30, 2010, the Board amended the Manual in compliance with the Revised Code of Corporate Governance issued by SEC under its Memorandum Circular No. 6, Series



of 2009. The Manual has been consistently updated in order to make the provisions thereof current and consistent with the issuances, circulars, rules and regulations of SEC. In 2014, the Company amended the Manual twice in order to align the provisions thereof with the recent memorandum circulars issued by the SEC.

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

The Board has implemented an annual internal self-rating system since its adoption on November 8, 2011, in order to assess and improve the performance of the Board in accordance with the best practices in corporate governance and the effectiveness of the Company's governance process. The said system covers four (4) broad areas of Board performance, namely: Fulfillment of the Board's Key Responsibilities, Board – Management Relationship, Effectiveness of Board Processes and Meetings and Individual Performance of Board Members.

The Audit Committee has also implemented an annual internal self-rating system since its adoption on August 6, 2015 in order to assess compliance of the Committee with its Charter, as well as improve the performance of the Committee in accordance with the best practices in corporate governance and the effectiveness of the Company's governance process. The said system covers six (6) broad areas of Committee performance, namely: Structure, Operation and Reporting Process; Oversight on Financial Statements and Financial Reporting; Oversight on Internal Controls and Risk Management; Oversight on External Audit; Oversight on Internal Audit; and Compliance with Legal and Regulatory Requirements.

Committed to good corporate governance practice and to keep themselves updated on the relevant laws, rules, regulations, circulars and issuances of regulatory bodies, all incumbent directors, senior executive officers and internal audit head attended a Corporate Governance Seminar conducted by SEC-accredited providers.

With the issuance on November 22, 2016, of the SEC issued Memorandum Circular No. 19, Series of 2016 (the "Circular") relative to the Code of Corporate Governance for Publicly-Listed Companies, which Code took effect on January 1, 2017, the Company shall comply with the requirements of the Circular and accordingly submit an amended or new Manual to the SEC on or before May 31, 2017.

*[The space below is intentionally left blank]*

## UNDERTAKING

Upon the written request of the stockholder, the Company will furnish such stockholder a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be addressed to:

SMC Stock Transfer Service Corporation  
2<sup>nd</sup> Floor, San Miguel Corporation  
No. 40 San Miguel Avenue, Mandaluyong City,  
1550 Metro Manila, Philippines

A copy of the Interim Unaudited Financial Statements with Management Discussion & Analysis for the 1st Quarter of 2017 of the Company or the Company's SEC FORM 17-Q for the 1st Quarter of 2017 (the "Report") will be posted in the Company's website <http://www.ginebrasanmiguel.com>. on or before May 15, 2017. A stockholder may request for a hard copy of the Report, and the Company shall provide the same not later than five (5) calendar days before the meeting. However, if the request is made at a later date, the Company will endeavor to provide such hard copy as soon as possible. The Company shall also immediately cause the publication once in two (2) newspapers of general circulation of a notice about the Report.

## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on April 24, 2017.

**GINEBRA SAN MIGUEL INC.**

By:



**Virgilio S. Jacinto**  
Corporate Secretary





103152017002685

**SECURITIES AND EXCHANGE COMMISSION**

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

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Company Information

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

**Document Information**

Document ID 103152017002685  
Document Type 17-C (FORM 11-C:CURRENT DISCL/RPT)  
Document Code 17-C  
Period Covered March 15, 2017  
No. of Days Late 0  
Department CFD  
Remarks



# COVER SHEET

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S. E. C. Registration Number

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

(Company's Full Name)

3 <sup>rd</sup>	&	6 <sup>th</sup>		F	L	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	,		
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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)

CONCHITA P. JAMORA
--------------------

Contact Person

841-5100
----------

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

CERTIFICATE OF INDEPENDENT DIRECTOR
--

FORM TYPE

--

Month  
Annual Meeting

--

Day  
Annual Meeting

--

Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

--	--

Total Amount of Borrowings  
Domestic Foreign

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To be accomplished by SEC Personnel concerned

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Cashier

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STAMPS  
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## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Minita V. Chico-Nazario**, Filipino, of legal age and a resident of 299 Governor A. Santos, BF Homes, Parañaque City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Ginebra San Miguel Inc. ("GSMI") and have been its independent director since March 9, 2012.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
	(PLEASE REFER TO ATTACHED "ANNEX A")	

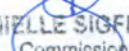
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of GSMI, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not in any way related to any director/officer/substantial shareholder of GSMI and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service/affiliated with a government agency or GOCC.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of GSMI of any changes in the abovementioned information within five days from its occurrence.

Done, this 15<sup>th</sup> day of March, 2017 at Mandaluyong City.

  
**Minita V. Chico-Nazario**

SUBSCRIBED AND SWORN to before me this 15<sup>th</sup> day of March, 2017 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport No. EC3431310 issued on February 11, 2015 at DFA Manila.

Doc. No. 471;  
Page No. 96;  
Book No. II;  
Series of 2017.

  
**DANIELLE SIGFREID R. CORPUZ**  
Commission No. 0459-16  
Notary Public for Mandaluyong City  
Until Dec. 31, 2017  
SMS, 40 San Miguel Ave., Mandaluyong City  
Roll No. 82547  
MCLE No. V-0017530  
PTR No. 3018216, 01/03/17, Mandaluyong  
IBP Member No. 1064415, 01/17/17, Makati



## ANNEX "A"

### AFFILIATIONS

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Mariveles Grains, Inc.	Director	January 2011 to present
San Miguel Pure Foods Company, Inc.	Independent Director	May 8, 2015 to present
Top Frontier Investment Holdings, Inc.	Independent Director	January 2, 2014 to present
San Miguel Properties, Inc.	Independent Director	May 9, 2012 to present
Tan Acut Lopez & Pison Law Offices	Legal Consultant	November 2016 to present
Union Bank of the Philippines	Legal Consultant	July 2010 to present
College of Law, The University of Perpetual Help, Las Piñas City	Dean	June 2011 to present
Integrated Bar of the Philippines, Manila IV	Member	Up to present
Women Lawyers Association of the Philippines	Member	Up to present
U.P. Women's Club	Member	Up to present
U.P. Women Lawyers' Circle	Member	Up to present



103212017002541

**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

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Company Name GINEBRA SAN MIGUEL, INC.  
Industry Classification  
Company Type Stock Corporation

**Document Information**

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No. of Days Late 0  
Department CED/CFD/CRMD/MRD/NTD  
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 .

(Company's Full Name)

3<sup>rd</sup> & 6<sup>th</sup> F L 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 R E ,  
M A N D A L U Y O N G C I T Y

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

CONCHITA P. JAMORA  
Contact Person

841-5100  
Company Telephone Number

1 2  
Month

3 1  
Day

AMENDED CERTIFICATE OF  
INDEPENDENT DIRECTOR  
FORM TYPE

Month  
Annual Meeting

Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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AMENDED CERTIFICATION OF INDEPENDENT DIRECTOR

I, Aurora S. Lagman, of legal age and a resident of 38 Samar Avenue, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of Ginebra San Miguel Inc. ("GSMI") and have been its Independent Director since March 15, 2017.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION-POSITION/ PERIOD OF  
RELATIONSHIP-SERVICE


Please Refer to Attached Annex "A"

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of GSMI, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not in any way related to any director/officer/substantial shareholder of GSMI and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I have the required written permission from the Dean of the College of Law of Bulacan State University to be an Independent Director in GSMI, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

Please Refer to Attached Annex "B"

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of GSMI of any change in the abovementioned information within five days from its occurrence.


Done this <sup>MAR 20 2017</sup> day of March 2017 at Mandaluyong City.

  
AURORA S. LAGMAN

MAR 20 2017

SUBSCRIBED AND SWORN to before me this day of March 2017 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport No. P0010519A issued on August 20, 2016 at DFA NCR Northeast.

Doc. No. 443;  
Page No. 90;  
Book No. I;  
Series of 2017.

  
MEINHARTA DINA  
Commission No. 0415-16  
Notary Public for Mandaluyong City  
Until December 31, 2017  
SMYPC, 8th Floor, San Miguel Properties Centre,  
No. 7 St. Francis Street, Mandaluyong City  
Roll No. 61239  
PTR No. 3024384; 01/05/17; Mandaluyong City  
IBP Lifetime Member No. 012342; Batangas City

  
AURORA S. LAGMAN

AFFILIATIONS (Amended)

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
<u>College of Law Bulacan State University</u>	<u>Faculty Member (Part-time)</u>	<u>July 2016 to present</u>
Judicial and Bar Council	Member	October 13, 2008-July 9, 2016
Court of Appeals	Associate Justice	February 4, 2004-January 15, 2008
Regional Trial Court Branch 77, Malolos, Bulacan	Judge	May 11, 1994-February 3, 2004
Kababaihang Manananggol ng Bulacan	Founding President	<del>2003</del> - <u>2013</u>
RTC Judges Association of Bulacan, Inc.	Adviser	2004-present
Integrated Bar of the Philippines	Member	<u>1978-present</u>
<u>Society for Judicial Excellence</u>	<u>Member Bd. of Trustees</u>	<u>2015-present</u>





Republic of the Philippines  
**BULACAN STATE UNIVERSITY**  
**COLLEGE OF LAW**  
City of Malolos, Bulacan  
Tel No. 919-7800 loc. 1083



## CERTIFICATION

This is to certify that **Justice AURORA S. LAGMAN, (Ret.)** is a part-time member of the faculty of College of Law, Bulacan State University and is allowed to engage directly in any private business, vocation or profession.

This certification is issued upon the request of Justice Lagman for whatever legal purpose it may serve her.

Done this 15<sup>th</sup> day of March 2017 at Malolos City, Province of Bulacan.

A handwritten signature in black ink, appearing to read "Nenita DC. Tuazon".

**DR. NENITA DC. TUAZON, LLM, DCL**  
Dean, College of Law

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2016, 2015 and 2014**



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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



**EDUARDO M. COJUANGCO, JR.**

Chairman and Chief Executive Officer



**CYNTHIA M. BAROY**

Chief Finance Officer



**BERNARD D. MARQUEZ**

President

March 15, 2017

**GINEBRA SAN MIGUEL, INC.**

3rd and 6th Floors, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City, Metro Manila, Philippines 1550 • Telephone: +632 841-5100 • TeleFax: +632 841-5240

A Subsidiary of  **SAN MIGUEL CORPORATION**



**SUBSCRIBED AND SWORN** to before me this 15 March 2017, affiant exhibiting to me their Passport, as follow:

<u>NAME</u>	<u>PASSPORT NO.</u>	<u>DATE OF ISSUE</u>	<u>PLACE OF ISSUE</u>
Eduardo M. Cojuangco Jr.	EC3542719	February 27, 2015	DFA Manila
Bernard D. Marquez	EC2448395	October 17, 2014	DFA NCR East
Cynthia M. Baroy	EB7884362	April 16, 2013	DFA Manila

Doc. No. 411;  
Page No. 84;  
Book No. I;  
Series of 2017.

**MEINHART A. DIÑA**

Commission No. 0415-18

Notary Public for Mandaluyong City

Until December 31, 2017

SMYPC, 8th Floor, San Miguel Properties Centre,

No. 7 St. Francis Street, Mandaluyong City

Roll No. 61239

PTR No. 3024384; 01/05/17; Mandaluyong City

IBP Lifetime Member No. 012342; Batangas City

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for Ginebra San Miguel Inc. and Subsidiaries for the period ending December 31, 2016.

In discharging this responsibility, I hereby declare that:

✓ I, am the Finance Services Manager of Ginebra San Miguel Inc.

\_\_\_\_\_ I, am the \_\_\_\_\_ of \_\_\_\_\_ and was contracted to perform this service.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of R.G. Manabat & Co. who/which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of the Republic Act No. 9298, that my statements are true and correct.


  
SIGNATURE OVER PRINTED NAME: HARRIET CECILIA C. AUSTERO

PROFESSIONAL IDENTIFICATION CARD NUMBER: 0077121  
VALID UNTIL: FEBRUARY 19, 2019

ACCREDITATION NUMBER: CPA Accreditation filed on September 30, 2016 still in process.  
REFERENCE NUMBER: 2016-2261

March 15, 2017

Doc. No. 422  
Page No. 86  
Book No. 7  
Series of 201 7

  
**NOTARY PUBLIC**  
**MEINHART A. DIÑA**  
Commission No. 0415-16  
Notary Public for Mandaluyong City  
Until December 31, 2017  
SMYPC, 8th Floor, San Miguel Properties Centre,  
No. 7 St. Francis Street, Mandaluyong City  
Roll No. 61239  
PTR No. 3024384; 01/05/17; Mandaluyong City  
IBP Lifetime Member No. 012342; Batangas City





R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
Email [ph-inquiry@kpmg.com.ph](mailto:ph-inquiry@kpmg.com.ph)

## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

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

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

### *Basis for Opinion*

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





## *Key Audit Matters*

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

### *Revenue Recognition*

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

#### *The risk*

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

#### *Our response*

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

- We evaluated and assessed the revenue recognition policies of the Group in accordance with Philippine Accounting Standards 18, *Revenue*.
- We tested operating effectiveness of the key controls over revenue recognition.
- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts to identify unusual or irregular items.
- We tested credit notes recorded after the financial year to assess whether revenue has been recognized in the appropriate financial year.



### *Valuation of Investments in Joint Ventures*

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

#### *The risk*

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

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

#### *Our response*

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

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

### *Other Information*

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

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





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

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

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

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

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.





- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

**R.G. MANABAT & CO.**

NOEL A. BALADIANG

Partner

CPA License No. 106166

SEC Accreditation No. 1473-A, Group A, valid until March 30, 2018

Tax Identification No. 223-804-972

BIR Accreditation No. 08-001987-33-2014

Issued October 15, 2014; valid until October 14, 2017

PTR No. 5904916MD

Issued January 3, 2017 at Makati City

March 15, 2017

Makati City, Metro Manila



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

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

See Notes to the Consolidated Financial Statements.

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

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

*See Notes to the Consolidated Financial Statements.*



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

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

*See Notes to the Consolidated Financial Statements.*

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

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

Forward



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

See Notes to the Consolidated Financial Statements.

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

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

Forward



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

See Notes to the Consolidated Financial Statements.

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

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**1. Reporting Entity**

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

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

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

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

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

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**2. Basis of Preparation**

Statement of Compliance

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

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

Basis of Measurement

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

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



#### Functional and Presentation Currency

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

#### Basis of Consolidation

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

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

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

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

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

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

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



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### 3. Significant Accounting Policies

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

#### Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

#### *Amendments to Standards and Interpretation Adopted in 2016*

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

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



- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:
  - *Changes in Method for Disposal (Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)*. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.
  - Disclosure information "elsewhere in the interim financial report" (*Amendment to PAS 34*). PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" - i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time.

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

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

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

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

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments improve the disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.



The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. When the group first applies the amendments, it is not required to provide comparative information for preceding periods.

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

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group:
  - Clarification of the Scope of the Standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

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

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



- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. Potential impact is being assessed.

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

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

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



the liability derecognized as at the modification date and the amount recognized in equity as at that date is recognized in profit or loss immediately.

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

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

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

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

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

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



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

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

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

#### Financial Assets and Financial Liabilities

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

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

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

#### Financial Assets

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

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



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

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

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

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

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

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

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

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



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

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

#### Financial Liabilities

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

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

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

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

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

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

#### Derivative Financial Instrument and Hedging

##### Embedded Derivatives

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

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

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



- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### Impairment of Financial Assets

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

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



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

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

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

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

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

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

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

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



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

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

#### Debt Issue Costs

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

#### Offsetting Financial Instruments

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

#### Inventories

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

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

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

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

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

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



### Business Combination

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

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

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

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

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

### *Goodwill in a Business Combination*

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.



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

#### Transactions under Common Control

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

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

#### Investments in Joint Ventures

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

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

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

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

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

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



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

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

#### Property, Plant and Equipment

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

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

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

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

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

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

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



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

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

#### Intangible Assets

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

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

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

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

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

#### Impairment of Non-financial Assets

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



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

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

#### Fair Value Measurements

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

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

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

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

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

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



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

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

#### Provisions

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

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

#### Capital Stock and Additional Paid-in Capital

##### *Common Shares*

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

##### *Preferred Shares*

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

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

##### *Additional Paid-in Capital*

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



#### *Retained Earnings*

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

#### *Treasury Shares*

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

#### Revenue Recognition

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

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

#### *Revenue from Sale of Goods*

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

#### *Revenue from Rendering of Services*

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

#### *Others*

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

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

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

#### Costs and Expenses

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



#### Share-based Payment Transactions

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

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

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

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

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

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

#### Leases

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

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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



#### Operating Lease

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

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

#### Borrowing Costs

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

#### Research Costs

Research costs are expensed as incurred.

#### Employee Benefits

##### *Short-term Employee Benefits*

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

##### *Retirement Costs*

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

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

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



Defined benefit costs comprise the following:

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

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

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

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

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

#### Foreign Currency

##### *Foreign Currency Translations*

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

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

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



### *Foreign Operations*

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

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

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

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

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

### Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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



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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

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

#### Assets Held for Sale and Discontinued Operation

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

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

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

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

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

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

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



#### Related Parties

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

#### Basic and Diluted Earnings Per Common Share (EPS)

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

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

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

#### Operating Segments

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

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

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

#### Contingencies

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

#### Events After the Reporting Date

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



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#### 4. Use of Judgments, Estimates and Assumptions

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

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

##### Judgments

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

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

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

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

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

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



### Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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## 5. Segment Information

### Operating Segments

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

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

The alcoholic segment produces and markets alcoholic beverages.

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

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

### Segment Assets and Liabilities

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

### Major Customer

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

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



Financial information about operating segments follows:

	For the Years Ended December 31, 2016, 2015 and 2014								
	Alcoholic			Nonalcoholic (Note 6)			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Sales	P18,572,497	P16,461,673	P14,875,418	P -	P165,899	P635,253	P18,572,497	P16,627,572	P15,510,671
Result									
Segment result	P918,087	P711,800	P526,079	P -	(P140,399)	(P166,075)	P918,087	P571,401	P360,004
Interest expense and other financing charges							(395,754)	(486,159)	(560,313)
Interest income							23,359	29,843	22,810
Equity in net losses of joint ventures							(96,635)	(109,667)	(66,265)
Other income (losses) - net							59,641	109,656	(1,687)
Income tax expense							(147,313)	(500,670)	(520,756)
Net Income (Loss)							P361,385	(P395,596)	(P766,207)
Other Information									
Segment assets	P13,131,599	P12,767,507	P13,823,283	P -	P70,901	P724,931	P13,131,599	P12,838,408	P14,548,214
Investments in joint ventures							465,637	524,850	659,488
Goodwill							126,863	126,863	226,863
Other noncurrent assets - net							616,749	1,452,964	1,489,673
Deferred tax assets							821,094	810,305	1,116,010
Consolidated Total Assets							P15,161,942	P15,753,390	P18,040,248
Segment liabilities	P2,328,430	P2,550,039	P2,431,314	P -	P47,239	P116,655	P2,328,430	P2,597,278	P2,547,969
Notes payable							7,998,111	8,406,460	10,084,440
Long-term debt - net of debt issue costs							228,571	342,857	457,143
Income and other taxes payable							176,093	303,068	308,509
Consolidated Total Liabilities							P10,731,205	P11,649,663	P13,398,061
Capital expenditures	P381,925	P232,742	P183,036	P -	P -	P29,851	P381,925	P232,742	P212,887
Depreciation and amortization							638,124	644,648	720,014
Noncash items other than depreciation							241,999	481,815	146,302

## 6. Discontinued Operation

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

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

In 2015, the Company received a total of P445,642 for the sale of the assets used in its NAB business and executed the following: (a) Deed of Sale of property, plant and equipment ("NAB PPE") executed on April 1, 2015; and (b) Deed of Sale of finished goods inventories and other inventories consisting of containers on hand, raw materials, goods-in-process and packaging materials executed on April 30, 2015. The purchase price is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties. As a result of the Transaction, the Group recognized a gain amounting to P37,334, included as part of "Gain on sale of property and equipment" account.

Certain accounts in the consolidated statements of income have been reclassified to show the discontinued operations separately from continuing operations. Details of the discontinued operations for 2015 and 2014 are as follows:

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

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

## 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

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

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

## 8. Trade and Other Receivables

Trade and other receivables consist of:

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

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



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

The movements in allowance for impairment losses are as follows:

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

The aging of receivables is as follows:

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

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

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

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

## 9. Inventories

Inventories consist of:

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

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

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

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

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

## 10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

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

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

## 11. Investments in Joint Ventures

### a. TSML

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



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

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

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

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

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

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

b. TGT

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

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

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

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

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

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



## 12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
<b>Cost</b>								
January 1, 2015	P727,747	P2,527,146	P212,907	P8,562,185	P876,697	P141,652	P81,912	P13,130,246
Additions	11	-	-	122	2,274	-	230,336	232,743
Disposals/reclassifications	33,487	(663,489)	9,787	(256,968)	39,609	(1,661)	(131,063)	(970,298)
December 31, 2015	761,245	1,863,657	222,694	8,305,339	918,580	139,991	181,185	12,392,691
Additions	-	148,855	-	-	-	-	233,070	381,925
Disposals/reclassifications	14,391	60,585	7,027	(19,813)	(38,840)	2,492	(322,374)	(296,532)
December 31, 2016	775,636	2,073,097	229,721	8,285,526	879,740	142,483	91,881	12,478,084
<b>Accumulated Depreciation and Amortization</b>								
January 1, 2015	177,069	895,091	173,163	4,981,817	633,408	25,272	-	6,885,820
Depreciation and amortization	4,168	56,682	22,362	392,843	85,906	5,648	-	567,609
Disposals/reclassifications	-	(43,818)	616	(902,519)	2,645	(89)	-	(943,165)
December 31, 2015	181,237	907,955	196,141	4,472,141	721,959	30,831	-	6,510,264
Depreciation and amortization	4,899	62,368	18,266	421,991	68,613	5,223	-	581,360
Disposals/reclassifications	7	(62)	(34,455)	(179,462)	(63,824)	-	-	(277,796)
December 31, 2016	186,143	970,261	179,952	4,714,670	726,748	36,054	-	6,813,828
<b>Accumulated Impairment Losses</b>								
December 31, 2015 and 2016	-	-	-	307,600	-	-	-	307,600
<b>Carrying Amount</b>								
December 31, 2015	P580,008	P955,702	P26,553	P3,525,598	P196,621	P109,160	P181,185	P5,574,827
December 31, 2016	P589,493	P1,102,836	P49,769	P3,263,256	P152,992	P106,429	P91,881	P5,356,656

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

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

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

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

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

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

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### 13. Goodwill

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

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



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

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

#### 14. Other Noncurrent Assets

Other noncurrent assets consist of:

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

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

The movements in intangible assets are as follows:

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

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

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

## 15. Notes Payable

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

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

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

## 16. Trade and Other Payables

Trade and other payables consist of:

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

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

## 17. Long-term Debt

Long-term debt consists of:

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

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

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



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

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

#### Repayment Schedule

The annual maturities are as follows:

Year	Gross Amount
2017	P114,286
2018	114,285
	<b>P228,571</b>

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

## 18. Income Taxes

Deferred tax assets arise from the following:

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

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

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

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

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

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

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

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

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

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

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

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



## 19. Equity

### a. Capital Stock

#### Common Shares

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

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

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

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

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

#### Preferred Shares

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

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

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

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

### b. Treasury Shares

Treasury shares consist of:

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

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

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

*c. Unappropriated Retained Earnings*

No dividends were declared in 2016, 2015 and 2014.

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

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

*d. Appropriated Retained Earnings*

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

## 20. Cost of Sales

Cost of sales consist of:

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



## 21. Selling and Marketing Expenses

Selling and marketing expenses consist of:

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

## 22. General and Administrative Expenses

General and administrative expenses consist of:

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

## 23. Depreciation and Amortization

Depreciation and amortization from continuing operations consist of:

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

Depreciation and amortization from continuing operations are distributed as follows:

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

#### 24. Personnel Expenses

Personnel expenses from continuing operations consist of:

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

Personnel expenses from continuing operations are distributed as follows:

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

#### 25. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

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



## 26. Other Income (Charges)

Other income (charges) consist of:

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

## 27. Related Party Disclosures

The Group purchase products and services from and sells products to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related party are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of December 31:

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

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

- b. The Group has entered into various lease agreements with related parties as a lessor and lessee (Note 28).
- c. Management fees amounting to P167,940, P189,343 and P181,825 in 2016, 2015 and 2014, respectively, are included in "Outside services" account under "General and administrative expenses" (Note 22).
- d. Security deposits amounted to P485 as of December 31, 2016 and 2015, are included as part of "Noncurrent receivables and deposits - net" under "Other noncurrent assets - net" account in the consolidated statements of financial position (Note 14).
- e. TSML executed various promissory notes in favor of the Company. The details of which are as follows:
  - o Principal sum of THB250,000,000 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
  - o Principal sum of THB50,000,000 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
  - o Principal sum of THB25,000,000 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
  - o Principal sum of THB75,000,000 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
  - o Principal sum of THB75,000,000 together with interest of 3.0% per annum, which interest shall accrue on April 7, 2011.

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

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

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

- f. Amounts owed to Bank of Commerce are included in "Notes payable" account in the consolidated statements of financial position (Note 15).
- g. The compensation of key management personnel of the Group, by benefit type, follows:

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



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## 28. Leasing Agreements

### Operating Leases

#### *Group as Lessor*

- a. The Company had a lease agreement with a related party for the lease of land in Cabuyao, Laguna for a period of three years from February 1, 2013 to January 31, 2016. Rental fee amounted to P194 per month. No renewal of the agreement was made during the year.
- b. The Company also had another existing lease agreement with a related party for the lease of land in Sta. Barbara, Pangasinan for a period of three years from July 1, 2013 to June 30, 2016. Rental fee amounted to P200 per month. No renewal of the agreement was made during the year.

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

#### *Group as Lessee*

- a. The Group leases various warehouse facilities under operating leases. These leases typically run for a period of one year. The Company has the option to renew the lease after the expiration of the lease term.
- b. EPSBPI has various lease agreements with related parties for the lease of parcels of land located in Ligao City, Albay and Cauayan, Isabela for a period ranging from five to ten years and renewable upon mutual agreement of both parties. Rental fees are payable monthly and subject to 5% escalation every year.
- c. In 2011, EPSBPI entered into lease agreements to use various equipment for a period of three years with the option to renew after expiration of the lease term. Rental fees are payable on a monthly basis. In 2016, the lease agreements were extended for periods ranging from nine months to two years.

Non-cancellable operating lease rentals are payable as follows:

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

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

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## 29. Retirement Plans

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

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

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

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

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

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

The retirement costs are recognized in the following line items:

	<b>Note</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Cost of sales	20	<b>P9,487</b>	P8,048	P8,173
Selling and marketing expenses	21	<b>11,163</b>	10,987	12,494
General and administrative expenses	22	<b>43,773</b>	37,791	40,411
		<b>P64,420</b>	P56,826	P61,079

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



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

The Group's plan assets consist of the following:

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

#### Investments in Marketable Securities

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

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

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

There was no dividend income recognized in 2016 and 2015.

#### Investments in Pooled Funds

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

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

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

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

#### Others

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

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

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

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

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

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

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

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

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

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

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



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

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

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

### 30. Basic and Diluted Earnings (Loss) Per Share

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

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

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### 31. Share-Based Transactions

#### ESPP

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

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

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

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

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

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

#### Objectives and Policies

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

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

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

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



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

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

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

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

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

#### Interest Rate Risk

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

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

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

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



The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,913, P9,284 and P5,221 in 2016, 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

#### Interest Rate Risk Table

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

December 31, 2016	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Floating Rate Philippine peso-denominated Interest rate	P114,286 PDST-F+ margin or BSP overnight rate, whichever is higher	P114,285 PDST-F+ margin or BSP overnight rate, whichever is higher	P -	P -	P -	P228,571
	P114,286	P114,285	P -	P -	P -	P228,571
December 31, 2015	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Floating Rate Philippine peso-denominated Interest rate	P114,286 PDST-F+ margin or BSP overnight rate, whichever is higher	P114,286 PDST-F+ margin or BSP overnight rate, whichever is higher	P114,285 PDST-F+ margin or BSP overnight rate, whichever is higher	P -	P -	P342,857
	P114,286	P114,286	P114,285	P -	P -	P342,857

#### Foreign Currency Risk

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

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

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



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

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

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

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

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

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

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

#### Commodity Price Risk

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

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

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

#### Liquidity Risk

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

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

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



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

December 31, 2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years
<b>Financial Assets</b>					
Cash and cash equivalents	P777,305	P777,305	P777,305	P -	P -
Trade and other receivables - net	2,466,737	2,466,737	2,466,737	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	242	242	242	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	42,720	42,720	-	42,235	485
<b>Financial Liabilities</b>					
Notes payable	7,998,111	8,030,467	8,030,467	-	-
Trade and other payables (excluding dividends payable and derivative liabilities)	1,888,803	1,888,803	1,888,803	-	-
Derivative liabilities (included under "Trade and other payables" account)	2,403	2,403	2,403	-	-
Long-term debt (including current maturities)	228,571	238,735	121,576	117,159	-
<b>December 31, 2015</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt; 1 Year - 2 Years</b>	<b>&gt; 2 Years - 5 Years</b>
<b>Financial Assets</b>					
Cash and cash equivalents	P445,801	P445,801	P445,801	P -	P -
Trade and other receivables - net	2,881,785	2,881,785	2,881,785	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	430	430	430	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account)	106,166	106,166	-	105,681	485
<b>Financial Liabilities</b>					
Notes payable	8,406,460	8,458,827	8,458,827	-	-
Trade and other payables (excluding dividends payable and derivative liabilities)	2,230,667	2,230,667	2,230,667	-	-
Derivative liabilities (included under "Trade and other payables" account)	128	128	128	-	-
Long-term debt (including current maturities)	342,857	365,318	126,483	121,813	117,022

### Credit Risk

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

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

### Trade and Other Receivables

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

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

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

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

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

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

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



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

#### Capital Management

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

### **33. Financial Assets and Financial Liabilities**

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P777,305	P777,305	P445,801	P445,801
Trade and other receivables - net	2,466,737	2,466,737	2,881,785	2,881,785
Derivative assets (included under "Prepaid expenses and other current assets" account)	242	242	430	430
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	42,720	42,720	106,166	106,166
<b>Financial Liabilities</b>				
Notes payable	7,998,111	7,998,111	8,406,460	8,406,460
Trade and other payables (excluding dividends payable and derivative liabilities)	1,888,803	1,888,803	2,230,667	2,230,667
Derivative liabilities (included under "Trade and other payables" account)	2,403	2,403	128	128
Long-term debt (including current maturities)	228,571	228,571	342,857	342,857



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

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

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

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

*Long-term Debt.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 4% and 2.5% to 4.3% as of December 31, 2016 and 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments

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

#### Derivative Instruments not Designated as Hedges

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

#### *Embedded Currency Forwards*

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$4,339 and US\$4,658 as of December 31, 2016 and 2015, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net fair value of these embedded currency forwards amounted to (P2,161) and P302 as of December 31, 2016 and 2015, respectively.

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



#### Fair Value Changes on Derivatives

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

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

#### Fair Value Hierarchy

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

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

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

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

### **34. Other Matters**

#### *a. Commitments*

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

#### *b. Contingencies*

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

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



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Ginebra San Miguel Inc. (the "Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and have issued our report thereon dated March 15, 2017.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

### R.G. MANABAT & CO.

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

March 15, 2017  
Makati City, Metro Manila



# Schedule 1

**GINEBRA SAN MIGUEL INC.**  
3<sup>rd</sup> and 6<sup>th</sup> Floor, San Miguel Properties Centre  
St. Francis Street, Ortigas Center, Mandaluyong City  
**RECONCILIATION OF RETAINED EARNINGS  
FOR DIVIDEND DECLARATION**

<b>Unappropriated Retained Earnings, January 1, 2016</b>	<b>P1,423,413</b>
<b>Adjustments:</b>	
Adjustments in previous years' reconciliation	
<b>Unappropriated Retained Earnings, as adjusted, January 1, 2016</b>	<b>1,423,413</b>
<b>Net income for the current year based on the face of AFS</b>	<b>375,794</b>
<b>Net income during the period closed to Retained Earnings</b>	
<b>Less: Non-actual/unrealized income net of tax</b>	
Equity in net income of associate/ joint venture	-
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) Unrealized actuarial gain	797
Fair value adjustment (M2M gains)	(6,111)
Fair value adjustment of Investment Property resulting to gain adjustment due to deviation from PFRS/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred income tax benefit for the year	-
<b>Sub - total</b>	<b>(5,314)</b>
<b>Add: Non-actual losses</b>	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
<b>Sub - total</b>	<b>-</b>
<b>Net income actually incurred during the year</b>	<b>381,108</b>
<b>Add (Less):</b>	
Dividends declaration during the period	-
Appropriation of retained earnings during the period	-
Reversal of appropriations	-
Effect of prior period adjustments	-
Treasury shares	2,669,973
<b>TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, DECEMBER 31, 2016</b>	<b>(P865,452)</b>



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

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

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

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

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

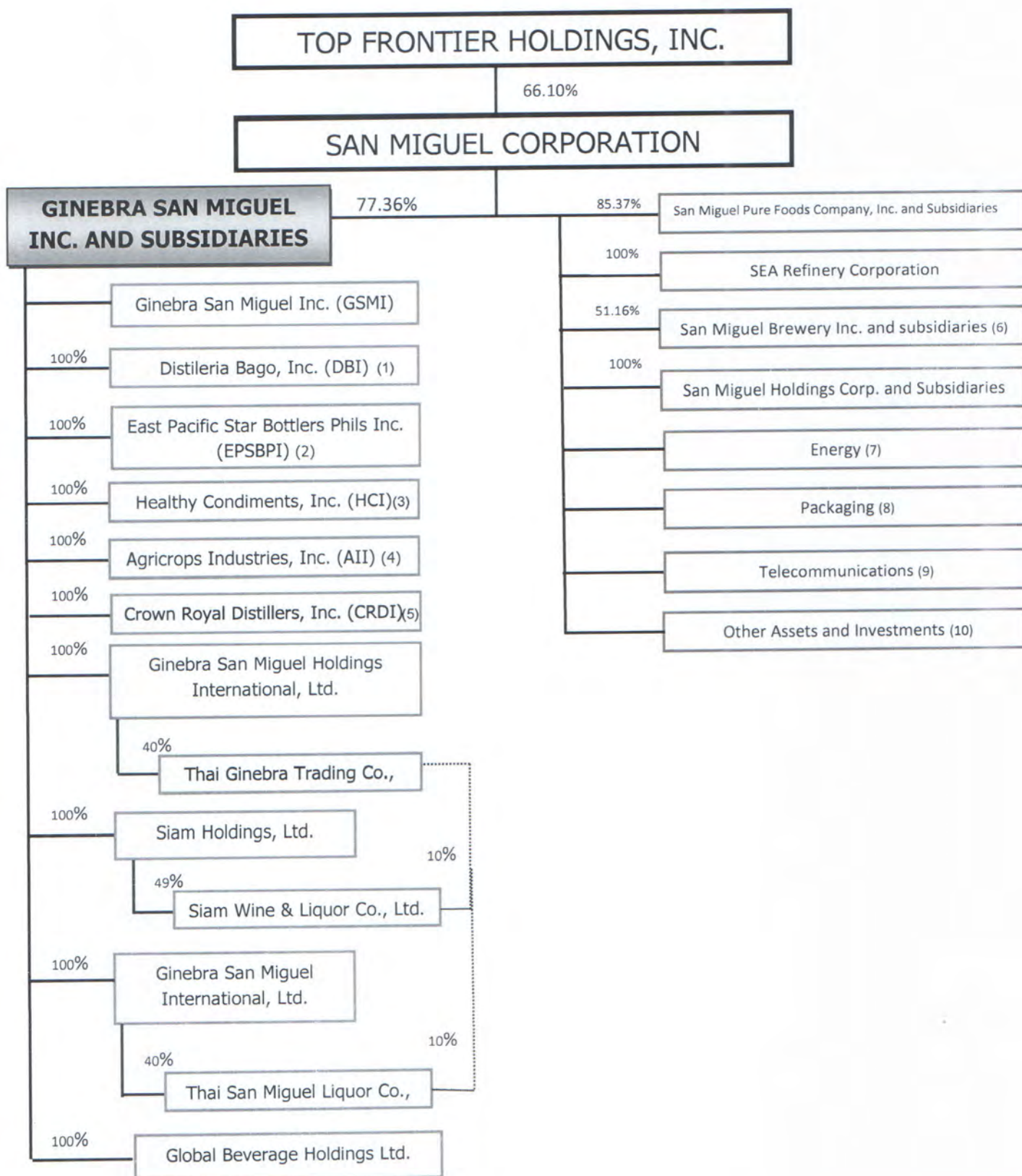
**R.G. MANABAT & CO.**

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March 15, 2017  
Makati City, Metro Manila



# GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES GROUP STRUCTURE



- (1) Incorporated on March 12, 1992 with a primary purpose of toll manufacturing of alcohol.
- (2) On January 27, 2012, GSML acquired 100% of the outstanding capital stock of EPSBPI
- (3) Incorporated on January 31, 2008 with a primary purpose of manufacturing, selling and distributing vinegar, other sauce products, condiments and related ingredients.
- (4) Incorporated on September 14, 2000 and has not yet started commercial operations
- (5) Incorporated on March 16, 2001 and has not yet started commercial operations
- (6) San Miguel Brewery Inc. and Subsidiaries includes San Miguel Brewing International Ltd. and Subsidiaries (100%)
- (7) Energy business includes of SMC Global Power Holdings Corp. and Subsidiaries (100%)
- (8) Packaging business includes San Miguel Yamamura Packaging Corporation and Subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (65%), San Miguel Yamamura Packaging International Limited (65%), San Miguel Yamamura Asia Corporation (60%) and Mindanao Corrugated Fibreboard, Inc. (100%)
- (9) Telecommunications business includes Vega Telecom, Inc. and Subsidiaries (100%) and San Miguel Equity Securities Inc. (100%)
- (10) Other Assets and Investments include San Miguel Properties, Inc. and Subsidiaries (99.68%)



## Schedule 3

### GINEBRA SAN MIGUEL INC. AND SUBSIDIRIES SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 – 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards – Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 – 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 – 2016 Cycle: Deletion of short-term exemptions for first-time adopters*			
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Meaning of 'vesting condition'	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
<b>PFRS 4</b>	Insurance Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*			
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Annual Improvements to PFRSs 2012 – 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments *			
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39*			
PFRS 9 (2014)	Financial Instruments*			
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
	Annual Improvements to PFRSs 2014 – 2016 Cycle: Clarification of the scope of the standard*			
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts*			
PFRS 15	Revenue from Contracts with Customers*			
PFRS 16	Leases*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of Financial Statements – Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative*			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*			
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Property, Plant and Equipment – Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Discount rate in a regional market sharing the same currency – e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements *			
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
	Annual Improvements to PFRSs 2014 – 2016 Cycle: Measuring an associate or joint venture at fair value*			
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Financial Instruments Presentation – Income Tax Consequences of Distributions	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 – 2011 Cycle: Interim Financial Reporting – Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 – 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 – 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 – 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property*			
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14,			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Prepayments of a Minimum Funding Requirement			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*			
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-01- Revised	PAS 1.103(a) – Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 – Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 – Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PIC Q&A 2009-02	PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 – Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements – Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) – Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 – Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 – Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 – Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property – Acquisition of investment properties – asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 – Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 – Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓

\*These standards or amendments will become effective subsequent to December 31, 2016. The Group will adopt these new and amended standards on the respective effective dates.



## Schedule 4

### GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Ginebra San Miguel Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2016 and 2015 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2016 and 2015 for operating efficiency ratios.

	December 31	
	2016	2015
Liquidity:		
Current Ratio	0.76	0.72
Solvency:		
Debt to Equity Ratio	2.42	2.81
Asset to Equity Ratio	3.42	3.81
Profitability:		
Return on Average Equity	(8%)	(9%)
Interest Rate Coverage Ratio	2.22	1.18
Operating Efficiency:		
Volume Growth	9%	4%
Revenue Growth	12%	11%
Operating Margin	5%	4%

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

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



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

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

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of Ginebra San Miguel Inc. (“the Parent Company”) and its subsidiaries (collectively referred to as the “Group”) for the three-year period ended December 31, 2016. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. All necessary adjustments to present fairly the Group’s consolidated financial position as of December 31, 2016 and the financial performance and cash flows for the year ended December 31, 2016 and for all the other periods presented, have been made.

#### **I. BASIS OF PREPARATION**

##### Statement of Compliance

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

##### Basis of Measurement

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

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

##### Functional and Presentation Currency

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

##### Significant Accounting Policies

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

##### Adoption of New and Amended Standards

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.



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## *Amendments to Standards Adopted in 2016*

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

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements apply to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function; (ii) that specific line items to be presented in the consolidated statements of financial position, consolidated statements of income and consolidated statements of comprehensive income can be disaggregated and additional guidance on subtotals to be presented in these statements; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11, Joint Arrangements*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key in determining whether the acquisition is accounted for as a business combination or as an acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.
- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:
  - Changes in Method for Disposal (*Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*). PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-



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sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

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

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

## II. FINANCIAL PERFORMANCE

### 2016 vs. 2015

Revenue of P18,572 million was 12% higher than last year due to the volume improvement of the Company's core brand and price increase on liquor products implemented in January 2016. Gross profit also grew by 7% from the previous year despite the 14% increase in cost of sales.

Additional spending in advertising and promotion programs brought the 4% increase in selling and marketing expenses. On the other hand, general and administrative expenses decreased by 3% on account of lower outside services, insurance, rent, and taxes and licenses.

Interest expense, net of interest income declined by 18% because of the decrease in short-term loan availments and settlement of long-term obligation. Meanwhile, the 12% reduction in share in equity in net loss of joint venture was due to a better operating results in 2016.

Gain on sale of property and equipment was significantly lower than a year ago because of the one-time gain on sale of asset earned in 2015. On the contrary, other income of P60 million was higher compared to last year's other charges of P51 million due to the impairment loss for goodwill recognized in 2015.

Income tax expense decreased by 71% from a year ago because of lower Net Operating Loss Carry Over (NOLCO) in 2016. These resulted in a better net income from continuing operations of P361 million against last year's net loss of P386 million. Moreover, the Parent Company will continue to endeavor and implement its consumer-focused strategies to sustain full recovery and further strengthen its market position in the hard liquor industry.

### 2015 vs. 2014

With the price increase for liquor products implemented in January and volume growing faster in the second half of the year, revenues ended 11% higher versus 2014. As a result, total gross profit jumped 10% from a year ago despite the 11% increase in cost of sales.

The more aggressive advertising and promotion programs drove selling and marketing expenses to increase by 5% compared last year. Likewise, the general and administrative expenses rose 14% mainly due to increase in personnel, provision for impairment losses and repairs and maintenance.

Meanwhile, interest expense net of interest income declined by 15% from 2014 because of the significant reduction in notes payable and continuous settlement of long-term obligations.



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Equity in net losses of joint ventures increased from 2014 because of the allowance for impairment loss recognized. This was due to the decline in operations resulting in lower sales forecast compared with previous years.

In addition, the sale of scraps and certain properties resulted to P75 million other income net of the goodwill impairment loss related to EPSBPI.

All these translated to an income before tax of P146 million, a substantial improvement from previous year's loss before tax of P54 million for the business with continuing operations. Combined with a lower provision for income tax on account of lower NOLCO and loss before tax from the discontinued operation, net loss ended at P386 million. This was better than last year's net loss of P766 million.

Anchored on the robust performance in 2015 and the better economic prospects of 2016, the Group is confident it can continue to move forward as it focuses in sustaining the growth of its core brands and will endeavor to strengthen traction of recently launched products. The marketing and distribution programs were crafted to be more relevant in order to ensure continued patronage and to promote interest across a younger and wider consumer base. Complemented by the pursuit for higher operational efficiency and purposive cost reduction measures, the Group is poised to deliver better results this year.

### III. FINANCIAL POSITION

#### 2016 vs. 2015

Cash and cash equivalents increased by 74% while trade and other receivables decreased by 14% because of the improvement in collection and effective management of Company's receivable.

Furthermore, investment in joint ventures decreased by 11% because of the additional impairment loss recognized for the year. The 13% decrease in other noncurrent assets was due to reduction in long-term receivables.

With the Company's sustained recovery in 2016, trade payables, short-term and long-term obligations were settled and managed to decrease by P862 million. Income and other taxes also decreased by 5% because of higher input taxes claimed against output taxes.

Cumulative translation adjustments decreased by 47% due to the translation adjustments in Investment in joint venture's net assets. While the decrease in Reserve for Retirement Plan was due to the recognition of remeasurement loss on the retirement plan assets.

#### 2015 vs. 2014

The Company's cash position at the end of the year was lower by 23% largely due to more raw materials purchased and settlement of both short-term and long-term debts, among others.

Meanwhile, the significant improvement in collection resulted in a 29% reduction in trade and other receivables despite higher sales revenue for the year. This was due to programs implemented and the year-long effort to manage the Company's receivables.

With more purchases in 2015 as mentioned above, inventory value at the end of the period grew by 16%. This was largely on account of more expensive molasses and the purposive build-up of raw alcohol, bottles and bunker fuel as a strategy to manage the cost of key production materials.



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The year-to-date net loss of Thai San Miguel Liquor Co. Ltd. joint venture further declined by 20% because of the provision for impairment loss recognized at the end of the year. This was a result of the decline in operations resulting to lower sales forecast compared to previous years.

On the other hand, the deferred tax assets slipped by 27% as an effect of recognition of applied and expired 2012 NOLCO and Minimum Corporate Income Tax.

Trade and other payables decreased by 4% on account of payments made from additional purchase of materials and supplies.

Lastly, with the Company's improved performance in 2015, it was able to reduce its notes payable by almost P1.7 billion and concurrently settled its long-term obligation - net of current maturities by another 33% when compared against last year's debt level.

### Equity

The increase (decrease) in equity for the period ended December 31, 2016 and 2015 is due to:

	December 31	
	2016	2015
	(In Millions)	
Net income (loss) for the period	361	(385)
Other comprehensive loss	(34)	(153)
	327	(538)

### IV. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	December 31	
	2016	2015
	(In Millions)	
Net cash flows provided by operating activities	1,632	1,769
Net cash flows provided by (used in) investing activities	(369)	383
Net cash flows used in financing activities	(933)	(2,286)

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

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

	December 31	
	2016	2015
	(In Millions)	
Additions to property, plant and equipment	(382)	(233)
Decrease in other noncurrent assets	12	38
Proceeds from sale of property, plant and equipment	1	578



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

	December 31	
	2016	2015
	(In Millions)	
Proceeds from:		
Short-term borrowings	74,243	81,992
Collection of subscription receivables	1	5
Payments of:		
Short-term borrowings	(74,652)	(83,670)
Long-term borrowings	(114)	(114)
Interest	(411)	(499)

The effect of exchange rate changes on cash and cash equivalents amounted to P1.5 million and P0.10 million for the periods ended December 31, 2016 and 2015, respectively.

### V. KEY PERFORMANCE INDICATORS

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

KPI	December 31, 2016	December 31, 2015
Liquidity:		
Current Ratio	0.76	0.72
Solvency:		
Debt to Equity Ratio	2.42	2.81
Asset to Equity Ratio	3.42	3.81
Profitability:		
Return on Average Equity	8%	(9%)
Interest Rate Coverage Ratio	2.22	1.18

KPI	Period Ended December 31	
	2016	2015
Operating Efficiency:		
Volume Growth	9%	4%
Revenue Growth	12%	11%
Operating Margin	5%	4%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income}}{\text{Average Equity}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
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	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

### VI. OTHER MATTERS

#### a. Commitments

The outstanding purchase commitments of the Company amounted to US\$70,357 (P3,498,168) as of December 31, 2016.

#### b. Contingencies

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

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