



SAN MIGUEL BREWERY INC.

A subsidiary of San Miguel Corporation



2020 VISION & MISSION

SMB is a dynamic company, the undisputed leader in the alcohol beverage industry, and a significant and profitable challenger in the NAB market.

We will lead the beverage market, anchored on our tradition of San Miguel Beer business excellence.

We will make accessible in existing and new markets, our world-class portfolio of products and services, to continually serve the ever-challenging tastes and preferences of our consumers.

We will deliver superior long-term value to our stakeholders inspired by our drive to be the best for the world.

Through our products and services, every occasion will be a drink to life.

We are SMB: Vibrant, Inspired, Bold & Entrepreneurial
Up the Vibe! Drink to Life!



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GAME-CHANGING DECADE

It has been 10 years since San Miguel Brewery Inc. (SMB) was established.

We changed the way we do business.

We reshaped our strategies, expanded our brand portfolio and package offerings, broadened our footprint in the international market, embarked on capacity expansion projects and entered into the non-alcoholic beverage business. We widened our customer reach with fresh and trendsetting marketing campaigns, tapped emerging channels, and strengthened ties with our trade partners.

Yes, in many ways, we have changed our game.





MESSAGE TO STOCKHOLDERS

Ten years ago, San Miguel Brewery Inc. (SMB) was spun-off from its parent company San Miguel Corporation as a standalone subsidiary with the end in view of unlocking the beer business' true value and potential. Today, our company is as strong as it has ever been: We are generating the highest profits and revenues in our history; serving new markets with a wider portfolio of world-class beers, and built to better withstand challenges and cyclical strains to our business.

From 2007 to 2017, our financial results have been remarkable. In the past two years alone, we registered double-digit growth, with 2017 consolidated revenues growing 17% to an unprecedented P113 billion, while our operating income reached P31 billion.

Our success has been hard-fought. Over the years, we weathered the impact of huge tax increases and implemented pricing strategies to ensure continued increase in volume. With competition in the broader alcoholic beverage market always nipping at our heels, SMB continues to keep the consumer at the center of all our efforts, addressing competitive challenges with effective sales and marketing programs, and continued strong levels of consumer advertising to support our different brands.

With every challenge, our employees and business partners have worked doubly hard to protect volume gains, maintain profitable growth, and maximize production capacities to serve the growing demand for our products. Each function is focused on executing projects designed to improve operations in order to make SMB even more competitive and profitable not just today but for the longer term. With improved distribution, the upgrade of production facilities, adoption of new technologies, and well-timed execution of expansion plans, SMB is ready to serve increasing demand for our well-loved, homegrown products.

Our sales team meanwhile continued to further strengthen ties with selling outlets—both on- and off-premise—to ensure that our brands especially new products and package offerings are available and easily accessible to consumers. It is, after all, availability of our products that has allowed us to maintain our position as one of the top players in the country's beverage industry.

We foresee a continued rise in demand for San Miguel Beer products both in our domestic and international markets. This is grounded on the continued strong economic performance in the global market and our drive to export SMB products to new international markets.

“THERE WILL BE MANY CHALLENGES ALONG THE WAY, BUT WITH OUR FOCUS AND RESOLVE, WITH OUR ENTREPRENEURIAL SPIRIT AND PASSION FOR CREATING WORLD-CLASS BEERS, WE ARE CONFIDENT THAT WE WILL CONTINUE TO LEAD THE BEVERAGE INDUSTRY.”

Domestically, the government's aggressive economic development programs and policies have resulted in rapid urbanization. Investments in infrastructure have resulted to job creation and greater economic development in major cities and towns—all of which should benefit our business.

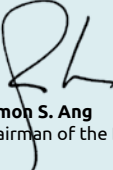
As such, our capacity expansion program is now underway. We recently broke ground for a new brewery in Tagoloan, Misamis Oriental, the company's sixth in the country, while construction of more breweries in key locations across the country are already planned. We will maintain financial discipline on how we use our strong cash flows to generate more business for SMB—making sure our products reach our consumers, whenever they need it, and wherever they might be.

In the same way, we make ourselves accountable for the targets we set and recognize the efforts of each and every employee for their contributions to our goals. Likewise, our achievements would not have been possible without the continued support of our business partners, our shareholders, and most importantly, our consumers, who continue to patronize our products.

Looking ahead, we are confident that the strategies and programs we have put in place today, will result in another decade of growth. We have a strong lineup of marketing events, sales promotions and brand activations planned for the year. We expect our capacity expansion programs and companywide productivity initiatives to redound to higher margins and profitability in the years ahead.

There will be many challenges along the way, but with our focus and resolve, with our entrepreneurial spirit and passion for creating world-class beers, we are confident that we will continue to lead the beverage industry.

Arangkada SMB! Up the Vibe! Drink to Life! Cheers!



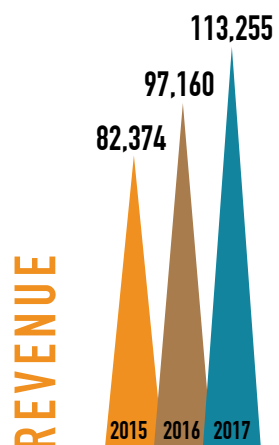
Ramon S. Ang
Chairman of the Board



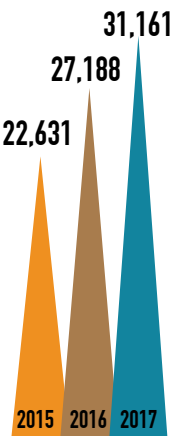
Roberto N. Huang
President

FINANCIAL HIGHLIGHTS

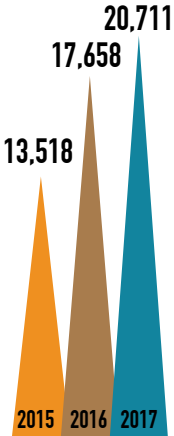
FOR THE YEARS 2015-2017
IN PESO MILLIONS



OPERATING INCOME



NET INCOME



MANAGEMENT'S DISCUSSION AND ANALYSIS

San Miguel Brewery Inc. delivered outstanding financial results. Hefty sales performance translated to top-line growth of 17% with consolidated revenue increasing to P113 billion. Consolidated net income grew 17%, reaching almost P21 billion, mainly driven by 13% volume growth.

DOMESTIC OPERATIONS

In 2017, SMB exhibited strength and fortified its market leadership through equity-boosting and consumption-generating programs to support the company's expansion. Sustained economic growth alongside the company's pricing strategy, equity-building, demand-generating and efficiency programs spurred consumption. Most beer brands exceeded last year's results with high volumes for Pale Pilsen, Red Horse, San Mig Light and San Miguel Flavored Beer.

Meanwhile, our non-alcoholic beverage (NAB) business continued to expand supported by availability and sampling initiatives as well as targeted advertising. Magnolia Healthtea and Purewater were the key growth contributors. San Mig Cola was also launched in identified regions in March 2017, marking the company's entry into the carbonated soft drinks segment and contributing to volume growth.

Consumption of San Miguel Pale Pilsen continued to increase through visibility programs highlighting the brand's "original" equity and offtake-generating programs as well as innovative above-the-line and digital executions, bar tours and sponsorships.

Red Horse further strengthened its position as the leading strong beer brand with two thematic campaigns through TV commercials (TVCs) complemented by non-traditional out-of-home (OOH) placements, annual hosting of its trademark event "*Pambansang Muziklaban*" and various on-the-ground activations.

San Mig Light enhanced its message of "light on stomach" and relevance in social culture with new thematic campaigns via new TVCs, digital and OOH in strategic locations while protecting its key channels with outlet-based consumer promotions, image-building events and merchandising displays with premium bucket designs.

Economy brand Gold Eagle (GE) upheld its position in the regional markets by means of localized TVCs and radio commercials (RCs), GE totem poles, volume-generating programs, provincial events and community partner programs rolled out to improve availability in remote and rural tertiary outlets.

Seriously fun San Miguel Flavored Beer strengthened its brand image through tradigital executions, OOH in key areas, *"SMFBU Fun Fair ng Barkada"* signature event as well as demand-generating promotions in sari-sari stores and convenience stores.

For the sophisticated drinkers, Lifestyle Brews—Super Dry, Premium All-Malt, Cerveza Negra and Kirin Ichiban—implemented above-the-line activities such as TVCs, OOH and print placements, online visibility programs as well as consumer promos and event tie-ups to strengthen brand awareness.

San Mig Zero continues to attract health-conscious consumers through brand-building initiatives by way of tradigital placements with messages that leverage on the brand's functional and emotional benefits.

The promotion of brand love continued to resonate with San Miguel Beer drinkers through *"Pusong Pinoy, Pusong San Miguel"*

and *"Pambansang Beer"* campaigns, and *"Divercities"*-themed Oktoberfest activities including media-based and sponsored major events nationwide.

For our NAB business, consumption improved using regional advertising, increased number of productive outlets, product sampling, strategic merchandising and trade programs.

San Mig Cola commenced selling in *sari-sari* stores and selected on-premise outlets in identified regions. The new product received favorable consumer feedback in terms of taste and packaging.

Along with the company's growth strategy to support volume expansion, SMB increased trade efficiencies through modifications in distribution and dealership operations, multi-brand penetration, stronger outlet servicing and product availability programs while its NAB business focused distribution in areas in support of profitable growth.

Amid heightened competition, SMB strengthened market leadership by intensifying its defense activities to counter efforts from competing brands in the alcoholic beverage market. The company also implemented beer market expansion programs, aggressive penetration as well as effective execution of tactical promos.

In addition, SMB improved production and sourcing capability with the rehabilitation and upgrading of its manufacturing equipment and facilities. The company also broke ground for a new brewery in Tagoloan, Misamis Oriental in April.

All in all, SMB's healthy operating margins were further sustained with the implementation of the company's quality and cost efficiency programs.

Programs to strengthen management and organization capability were likewise pursued in order to address the growing business' requirements by pursuing efficient spending, continuous upgrading of IT infrastructure, strict adherence to new laws and regulations, and sustained engagement of its workforce in various social development projects.

In line with SMC's initiative to improve its environmental footprint and support a more sustainable model, SMB adopted an exit strategy from the plastic PET bottled water business with the de-marketing of Magnolia Purewater in PET bottles.

SMB will remain committed in pursuing relevant CSR programs, even as the company gears up efforts to further elevate its performance.

Recognitions and citations were awarded by the Monde Selection and Australian International Beer Awards for selected beer brands along with the Department of Energy for the Don Emilio Abello Energy Efficiency Awards for our plants and energy managers.

INTERNATIONAL OPERATIONS

In 2017, San Miguel Brewery's international arm sustained its profit growth momentum while accelerating expansion of San Miguel Beer brands. As a result, operating income improved by 17% following through a strong recovery in 2016. Favorable financial results were driven by margin improvements on the back of higher San Miguel volumes, which saw upbeat performances in South China, Thailand, North China, Vietnam and Export markets, coupled with operational enhancements. Volume growth was aided by trade coverage expansion via appointment of new dealers and distributors, increase in outlet penetration and entry to new territories as well as the conduct of equity-enhancing activities and demand-generating programs.

Hong Kong turned in better operating results despite a slight decline in total volumes. San Mig Light sustained its double-digit growth driven by the growing popularity of the brand in bars and pubs. On top of the stellar growth volume of San Mig Light, profit improvement was backed by better gross margins and reduction in fixed costs.

In South China, operating results posted a turnaround in 2017 largely coming from double-digit volume growth and favorable exports margins. Volume expansion was attributed to San Mig Light's impressive performance in new markets as well as the continued exceptional growth of the Dragon brand on the back of the sustained expansion of the Dragon Qingchun variant in Shunde. Meanwhile, 2017 continued to be a challenging year in North China operations, with volumes and profit declining as a result of tough market conditions.

Our Indonesian operations managed to register higher operating income despite a drop in volume, which was partly caused by market uncertainties during the year as a result of government pronouncements suggesting total alcohol ban. Profit improvement was driven by price increases implemented in mid-2016 as well as increased operational efficiencies. In addition, the triple-digit growth of newly-launched Cerveza Negra is a promising achievement in 2017.

Domestic volumes in Thailand exhibited an upturn in 2017 following the robust growth of San Mig Light and San Miguel draught beer variants. However, operating income fell behind the previous year largely due to the foreign exchange impact of the Thai Baht appreciation on export revenues, which offset improvements in domestic gross margin.

Meanwhile, Vietnam sustained its volume and profit uptrend in 2017. Volume growth was driven by the favorable performances of San Mig Light and Red Horse brands as well as higher export volume production. San Mig Light sustained its impressive sales in draught and local outlets while Red Horse continued to gain ground in draught beer outlets and convenience stores. Operating results were favorable versus last year mainly on account of higher domestic and exports margins.

Our export business continued to deliver strong financial performance primarily driven by higher sales to base markets South Korea, Japan, Qatar, Singapore, Taiwan, Australia, and UAE as well as new markets in Europe and Africa. Red Horse sustained its uptrend while San Miguel Pale Pilsen and San Mig Light registered accelerated growth on the back of outlet expansion supported by image-building activities and volume-generating programs. Improved margins also contributed to post double-digit growth in operating income.

IT'S A 10!



As San Miguel Brewery Inc. (SMB) moves forward and remains on top, in the midst of a fast changing market, we give you a preview of the top 10 milestones that made the company stronger and formidable. Difficult years allowed the company to turn challenges into opportunities, supported by better operational efficiencies, broader consumer reach, and committed and hardworking employees.



1 CHARTING OUR OWN COURSE

San Miguel Brewery Inc. (SMB) was incorporated on July 26, 2007, and the domestic beer business was spun off from San Miguel Corporation (SMC) on October 1, 2007. The spin-off of SMC's domestic beer business into SMB was intended to realize the value of SMC's flagship business. It has since grown with the same passion for success that has long become a San Miguel trademark.

2 MERGING OF STRENGTHS

In 2009, San Miguel Corporation and Kirin Holdings Company, Limited signed a share purchase agreement for the acquisition by Kirin of a significant stake of SMC's brewing unit, San Miguel Brewery Inc.

3 BREWING GLOBAL BRANDS

In 2010, SMB completed the acquisition of San Miguel Brewing International Limited (SMBIL). The integration of its domestic and international businesses drove us in a position to champion the iconic San Miguel brand to gain ground in countries where we operate and to expand into new export markets.



4 WINNING WAYS

In the last 10 years, SMB's resilience has been in full display. All in all, the company's business strategy of maintaining domestic leadership and expansion of the San Miguel Beer brands abroad resulted to sustained strong operational performance with robust margins, mainly driven by volume growth and prudent financial management.

6 DELIGHTING CUSTOMERS

The seriously fun and phenomenal San Miguel Flavored Beers, surprisingly refreshing San Mig Cola, and the guilt-free drinking experience of San Mig Zero, were added to the already illustrious brands in the company's product portfolio.



5 NOT JUST BEER

2015 saw transformation from being a purely beer and malt-based beverage business to a multi-beverage company. It began rolling out its long-term strategy following the acquisition of the Non-Alcoholic Beverage (NAB) assets from Ginebra San Miguel Inc. to explore opportunities in new markets.

7 GREEN LEGACY

In support of the government's re-greening initiative, SMB's Trees Brew Life project has planted at least 600,000 trees nationwide with the objective of planting 100,000 trees every year in forest covers and mangrove areas to help rehabilitate and protect the ecosystem.



8 BREAKING NEW GROUND

In September 2011, SMB's bottling plant in Santa Rosa, Laguna was inaugurated. As the demand for San Miguel Beer product continues to rise, the company has embarked on capacity expansion programs starting with a planned brewery in Tagoloan, Misamis Oriental.



9 WORLD-CLASS

Every year, SMB's world-class quality products are among the world's iconic beers after winning golds and prestigious awards in the Monde Selection and Australian International Beer Awards for selected brands.

10 SIGNATURE CAMPAIGNS

Some of SMB's greatest marketing campaigns were those that lingered in the hearts and minds of beer lovers while reinventing itself to excite its consumers even more.

The Oktoberfest Longest Bar in 2008 was the grandest and longest in the world. A special edition of San Miguel Oktoberfest brew was released to commemorate this novel event.

The 10th year of Red Horse Beer's Pambansang Muziklaban in 2008 was rock out loud with a mesh of rock and roll revelers and Sepultura's groove metal music.

The San Miguel Beer Drinking Contest became the country's trailblazer bidding more than 300,000 beer-drinker-participants gulping their way to gain the bragging rights as the land's fastest beer drinkers.



San Miguel Pale Pilsen's (SMPP) 125th year was celebrated with people's stories using the hashtag *#nagsimulasabeer*. A limited edition can was issued to help immortalize beer lovers who remembered their fond moments with SMPP.

The New Look, Same Taste of San Miguel Pale Pilsen was launched in 2011 widening its appeal with the release of a premium, long neck 330 ml bottle variant with its iconic taste and original brand.

Icon Meets Icon in 2012 when legendary international artist Black Eyed Peas' Apl.de.Ap was chosen as brand ambassador for the company's flagship product, San Miguel Pale Pilsen.



CORPORATE SOCIAL RESPONSIBILITY

OUR RENEWABLE TOUCH

The heart of a company is anchored on its commitment to give back to people and to society. For San Miguel Brewery Inc., making a lasting impact in the lives of many reinforces the values that we espouse in the way we do our business.

SMB believes that going beyond the bottom line and sustaining Corporate Social Responsibility (CSR) programs make good business sense. This brand of CSR allows the company to uplift its beneficiaries' quality of life, provide access to health, sanitation and education and be responsible stewards of the environment, and ultimately contribute in nation building by expanding our reach from our host communities to our partner beneficiaries.

Now more than ever, the company's growth becomes a springboard to allow it to do more for the greater good. Anchored on *malasakit*, a value that is intrinsic to every Beerman, the company's commitment to *TEAM MALASAKIT* has since trickled down to its employees, business partners, partner organizations and beneficiaries. This act of giving back becomes a thread that is woven into the fabric of SMB's way of life.

Let us revisit SMB's social development initiatives as it marks ten years of investing in people and in communities.

Trees Brew Life

In line with the government's National Greening Project and our commitment to comply with all regulatory requirements, the SMB's Trees Brew Life program has long been the company's arm in helping re-green the country's forest covers. To date, at least 600,000 assorted trees, mangroves, and flowering plants have been planted under the company's flagship tree-growing program.

"Being a highly-industrialized city which is home to various manufacturing plants and industries, the City of Santa Rosa, especially its constituents have nothing to worry especially if San Miguel Brewery is their neighbor. The company is very



compliant and always makes sure that they give back not only to the community they are in but most especially to our environment. They have been our effective partner in the rehabilitation of our watersheds and rivers," says Sta. Rosa City Environment and Natural Resources Officer Erlinda Creencia.

"Brgy. Matina Pangi is really known for its flooding incidents especially during the rainy season. That is why we were very grateful when SMB decided to make us their beneficiary in their annual treeplanting project. *Ang ginagawa kasi ng San Miguel, hindi lang tree-planting, kundi tree-growing talaga.* (San Miguel does not just simply plant trees. They make sure those seedlings grow into big trees.) Since we became partners in this project, *hindi nila pinabayaan ang areas na tinaniman nila. Talagang binibisita nila.* SMB coordinates with the brgy and the community prior to the actual planting and assigns the clearing, cleaning, and preparation of the area to be planted to the community. And the coordination continues until the trees have grown tall. This project is a very big help in doing something about global warming. A project that does not just benefit us, but as well as our children and the children of our children",





proudly shares Brgy. Captain Carmelo Arana of Matina Pangi, Davao City

Tullahan River Dredging Project

For Valenzuela City, the company is also top-of-mind partner when it comes to environmental protection and sustainability projects. SMB through Polo Brewery is among the biggest government partners in rehabilitating the Tullahan River and its tributaries. The Tullahan River Dredging Project to date collects and disposes at least 10,000 cubic meters of garbage and effluent annually.

“In 2017, Valenzuela City was awarded by the DENR as the most outstanding LGU in partnering initiatives, and we could not have won this award if SMB was not our partner-company,” says Emmanuel Delesmo, Valenzuela City’s Public Sanitation and Cleanliness Office.

SMB Community Clinics

In cooperation with the San Miguel Foundation, we implemented the company’s flagship CSR projects. We extended our help to our neighbors through our Community Clinics in Polo, Davao, San Fernando, Mandaue and Bacolod breweries. This initiative gained us the nod of the International Association of Business Communicators as among the country’s best corporate social development tools.

“The SMB Community Clinic has improved access to basic health services of my constituents, particularly those residing in far-flung sugar haciendas. Our partnership with SMB has contributed much to having Granada declared as The Best Performing Barangay in Bacolod City by the Department of Interior and Local Government in 2017,” proudly declares Brgy. Granada Chairman Alfredo Talimodao, Jr.

SMB Community-based Scholarship Program

Similarly, the company continued its pledge of support for the youth by having community-based scholars in areas where its facilities are located. Profound stories from SMB scholars inspired us to do more, some of whom are now employees of the company.

“Having been chosen as among the SMB scholars almost eight years ago was already a life-changing blessing for me and my family. It was extra sweet five years later when I was actually hired as an employee of San Miguel Brewery here in Bacolod City. I will be forever thankful to this wonderful company,” says Joeserelle Deves who was an SMB scholar and a Sales Logistics Coordinator at Negros Provinces Beer Region.

Thirty four (34) schools have likewise been constructed through *Aklát, Gabay, Aruga, Tungo sa Pag-angat at Pag-asa* (AGAPP).

Brigada Eskwela

For more than a decade now, SMB has been actively partnering with the Department of Education (DEPED) in its annual *Brigada Eskwela* program. SMB employees share their time in making sure that schools within or near their facilities are ready to accept students before the actual opening of each school year.

Happy si Mommy, Malusog si Baby

In 2017, the San Miguel Foundation through SMB also implemented the *Happy si Mommy, Malusog si Baby* program. Designed as a Community Development Health and Nutrition Program, it focuses on the importance of the First 1000 Days as a window of opportunity for mothers to ensure full potential of children in terms of their health and cognitive development.



"It is a first time for us in Darong to have a 2-year project for pregnant and lactating mothers. The *Happy si Mommy, Malusog si Baby* has a very big impact in the barangay because of its holistic approach. It does not just give assistance to pregnant mothers and their babies but it also equips them with the knowledge and training on how to ensure that they give the best nutrition for their children while making sure that they are in the best of health and teach them skills for economic activities that could help them sustain their families. As of today, all 24 beneficiary mothers have successfully given birth and we look forward to the next phase of the project," says Minda Quijada, Midwife, Darong, Sta. Cruz, Davao del Sur

Various projects were likewise carried out based on the communities' needs through the barangay strengthening program. From holding of lectures on proper handling of hazardous wastes, disposal of toxic wastes, as well as livelihood projects and resource mobilization enhancement seminars, SMB lives up to its big brother role in the communities where we operate.

Supplemental feeding programs, medical missions, and livelihood programs were likewise implemented in all breweries. SMB likewise continues as a very able helping hand to our communities and employees affected by various natural and man-made calamities.

SMB also helped host communities establish Materials Recovery Facilities (MRFs) and donated a garbage truck in San Fernando. SMB also significantly contributed for the rehabilitation of war-devastated Marawi City.

Team Malasakit

Through the Team Malasakit program of San Miguel Corporation, SMB employees have contributed man hours for various initiatives such as the House Build in Calauan, Laguna and Batangas City, relief goods repacking activities for Mayor Volcano and Marawi evacuees, among others.

SMB has donated a total of 831 houses in various calamity-stricken areas. A number of victims of super typhoon Yolanda, and Tropical storms Sendong, and Ondoy are now comfortably living in San Miguel communities in the cities of Valenzuela, Cagayan de Oro, and Tacloban.

32-year old Ariel Papa of San Remigio in Cebu Province could not contain his happiness as he was literally shaking while he received his San Miguel Pale Pilsen- printed banca, generator set and other fishing implements. *"Murag dili ko katuo nga naa'y muhatag sa amo niining klase nga grasya. Wala lang mo kabalo kung unsa ko kalipay karon nga makabangon na gyud 'mi human sa bagyo. Lisud kaayo ang kaagi sa akong pamilya ilabi na nga naguba tanan namong materyal nga butang. Salamat sa inyong tabang. Makapabaskug ni sa among pagbangon."* ("I could not believe that a blessing this immense will happen to us. You just do not know how happy I am now. We can now rise from the wrath of the typhoon. My family have had enough sacrifices because all our material properties were destroyed. Thank you very much for your help. This will help strengthen our resolve to rise again.").

In 2017, the company launched *SMB Cares* to give employees the sense of fulfillment by doing their part in community-building. From helping increase the total green cover of the entire nation through our annual Trees Brew Life project to easing the worries of children afflicted with cancer and other terminally-ill patients, SMB is the good neighbor and a big brother to its host communities and identified beneficiaries.



SMB's helping hand and generous heart did not only reach out to those in the home front. Our beer business overseas also implemented various programs.

South China

In South China, (GSMB & SMGB) GSMB sponsored the Earth Hour Event in Guangzhou for two consecutive years. Organized by the Center for Environmental Education and Communications of Ministry of Environmental Protection Foundation, this year's theme was "Green Life, Blue Future". The ceremony in the main venue kicked off with a five-a-side football friendly match and a show featuring the Han etiquette and clothing. Starting 8:30 p.m., lights in several buildings in CBD of Guangzhou including Canton Tower and surrounding buildings were turned off for one hour.

GSMB also sponsored the Che Bei Dragon Boat Traditional Cultural Festival. Located in Tianhe district in Guangzhou, Che Bei Village is a famous, traditional and ancient village. On the third day of the fifth lunar month every year, Che Bei Village traditionally holds a "Chiu King Day" (Dragon Boat Invitation day). This is one of Guangzhou's largest dragon boat events. As beer sponsor, GSMB provided beer for the Dragon Boat banquet, organized a beer-tasting activity and set parasols along the riverside for the match spectators. This event has attracted hundreds of dragon boat participants as well as over 100,000 spectators every year.

Elderly and families with financial difficulties residing around the plant were also part of SMGB's outreach activity. The beneficiaries were given festival gifts during the Chinese New Year and Mid-Autumn Festival.

Organized by the Longjiang town government at the Cultural Square, a charity dinner was similarly organized in a bid to raise funds for indigent families. SMGB supported the event through product assistance and employee participation.

Hong Kong

Traditionally held every year, the Lantau International Beer Dash in Hongkong, of which San Miguel Brewery Hong Kong Limited (SMBHK) is the sole supporter for nine consecutive years to the annual 5-kilometer fun run in aid of raising funds for the Protection of Animals Lantau South (PALS) and Lantau Buffalo Association (LBA). This has become a family day where supporters dress up in costumes.

For six consecutive years, SMBHK has also been the single sponsor of the annual Sedan Chair Race, the main fundraising event of the Sedan Chair Charities Fund to support identified charitable organizations. The event entails the racing teams to carry sedan chairs racing around the Peak on a 2.1 km route. Aside from product assistance, SMBHK also installed a beer booth at the bazaar where all proceeds were donated to the Sedan Chair Charities Fund.

SMBHK, as a founding member of FReD, has continued to promote responsible drinking in Hong Kong. As Chairman of FReD this year, SMBHK organized the "Together, Our Voices Can Stop Drink Driving" campaign where responsible drinking ambassadors visited entertainment areas in Lan Kwai Fong to raise awareness and gathered 250 anti-drunk driving pledges via FReD's pledge wall from the participants. A university tour was also conducted to spread the message of responsible drinking among students. The campaign provided a platform for students to share their thoughts on what it means to be responsible when drinking as well as share information and resources to encourage safe alcohol consumption.



Another social outreach project of SMBHK was the “Lifewire Run” activity, which aims to raise funds and help children who are suffering from chronic diseases. As sole sponsor of the event, which had the theme of “Old Hong Kong”, had more than 2,700 athletes taking part in the race. Following this theme, SMBHK set up a draught beer and game booth which was reminiscent of the old Hong Kong.

Thailand

Moving to Thailand, employees from San Miguel Beer Thailand (SMBTL) participated and supported government employees of the Baan Mai Municipality in their clean-up drives in the nearby towns of Tivanon road in Pathumthani, where the plant is located. SMBTL together with the government officials planted marigolds in plant boxes along Som-sang Road. A project for the youth was also supported by SMBTL during the National Children’s Day at the municipality of Baan-Mai and Kajornsub-Amrung School. Organizations from both government and commercial sectors joined together to provide fun activities for the children. The event was made memorable as SMBTL, together with other companies, donated bicycles and toys for the children.

Indonesia

In Indonesia, in cooperation with Red Cross Indonesia in Bekasi, more than 50 PTD employees participated in the Quarterly Blood Donation Activity held at the Plant. PTD likewise conducted its yearly Free Medical Mission covering three nearby villages, namely: Jatimulya, Setia Darma and Lambangsari. More than 600 patients benefitted from the project.

PTD, in coordination with the local Health Center, also donated more than 400 boxes of milk every month for toddlers in its host villages. This was done through posyandu, a community-based vehicle meant to improve child survival and development.

During the observance of Eid al-Fitr, PTD initiated a gathering of the community members from surrounding villages of Jatimulya, Setia Darma and Lambangsari to participate in Break Fasting together with PTD employees. Moreover, PTD distributed food packages to families and orphans as well.

In commemoration of Eid al-Adha, the company participated in the practice of sacrificing cows. Around 400 packages of qurban or the sacrificial animal were distributed to the beneficiaries of their host communities.

As we renew our promise of doing good, sustainable development will remain to be at the core of our CSR initiatives. We will empower more partner communities by giving them the means to chart their futures. In the same way, we will ensure that our operational practices are environmentally responsible so as to protect and preserve our resources for the generations to come.

Indeed, all these initiatives strengthen our hold on our aim to become not only the employer of choice but a neighbor of choice as well—a business that has *Malasakit* in its core.

As we continue to grow and be profitable, we look forward to another ten years of succeeding by helping others succeed with the purest intentions from the heart.

BOARD OF DIRECTORS

as of December 31, 2017





1) Mr. Takashi Hayashi was replaced by Mr. Kenji Uchiyama as Director effective March 29, 2018.

2) Mr. Tomoki Yamauchi replaced Mr. Fumiaki Ozawa who resigned as Director effective October 1, 2017. Mr. Fumiaki Ozawa replaced Mr. Katsuhiko Matsumoto on April 1, 2017.

Ramon S. Ang, 64, Filipino, has served as Chairman of the Company since July 26, 2007 and is the Chairman of the Company's Executive Committee. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of SMC; Director, President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. ("Top Frontier") and Petron; Vice Chairman of San Miguel Food and Beverage, Inc. ("SMFBI"); Director and President of Ginebra San Miguel Inc. ("GSMI"); Chairman and President of SMC Global Power Holdings Corp. ("SMC Power"); and Chairman of San Miguel Brewery Hong Kong Limited ("SMBHK") (Hong Kong) and Petron Malaysia Refining & Marketing Berhad (Malaysia) ("Petron Malaysia"). He is also the Chairman and President of San Miguel Holdings, Corp., San Miguel Equity Investments Inc. and San Miguel Properties, Inc.; Chairman of SEA Refinery Corporation, San Miguel Foods, Inc. ("SMFI"), San Miguel Yamamura Packaging Corporation ("SMYPC"), Anchor Insurance Brokerage Corporation ("AIBC"), Clariden Holdings, Inc., Philippine Diamond Hotel & Resort, Inc. and Privado Holdings Corp. He is the sole shareholder and Director of Master Year Limited. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC during the last five years and was previously the Company's President (2007-2009). He was also a director/officer in other publicly listed companies outside of the San Miguel Group in the last five years, including President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Chairman of the Board of Cyber Bay Corporation. Mr. Ang holds a Bachelor of Science Degree in Mechanical Engineering from Far Eastern University.

Roberto N. Huang, 69, Filipino, has served as Director since October 8, 2007 and President of the Company since April 30, 2009; and is a Member of the Company's Executive Committee. He is also a Director of San Miguel Brewing International Limited ("SMBIL") and SMBHK; and Chairman and President of Iconic Beverages, Inc. ("IBI"), Brewery Properties Inc. ("BPI") and Brewery Landholdings, Inc. ("BLI"). He also served as General Manager of the Company (2007-2009). Mr. Huang holds a Bachelor of Science Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University.

Ferdinand K. Constantino, 66, Filipino, has served as Director of the Company since July 26, 2007 and is the Chairman of the Company's Executive Compensation Committee and a Member of its Audit Committee and Governance and Nomination Committee. He also holds, among others, the following positions: Senior

Vice President, Chief Finance Officer and Treasurer of SMC; Director of Top Frontier and Petron Malaysia; Director and Vice Chairman of SMC Power; President of AIBC; Director of SMYPC, Citra Metro Manila Tollways Corporation and Northern Cement Corporation; and Chairman of the San Miguel Foundation, Inc. He is also a former Chief Finance Officer and Treasurer of the Company (2007-2009); and Director of SMC, GSMI and SMFI. Mr. Constantino has held directorships in various domestic and international subsidiaries of SMC during the last five years and was also a director in other publicly listed companies outside of the San Miguel Group in the last five years, including Director of PAL Holdings, Inc. and Philippine Airlines, Inc. Mr. Constantino holds a Bachelor of Arts Degree in Economics from the University of the Philippines and completed academic requirements for a Master's Degree in Economics from the University of the Philippines.

Keisuke Nishimura, 61, Japanese, has served as Director of the Company since April 30, 2009. He is the Representative Director of the Board and Vice President of Kirin and Senior Executive Officer of Kirin Company, Limited. He was previously Director of China Resources Kirin Beverages (Greater China) Company, Limited; Executive Officer and General Manager, Strategy Planning Department of Kirin; the Company's Executive Vice President (2009-2011); and Director of SMBHK (2010-2011) and SMBIL (2010-2011). He also served in the Kirin group of companies in various other capacities. Mr. Nishimura holds a Bachelor's Degree in Business from Yokohama National University and a Master's Degree in Business from the University of Washington.

Carmelo L. Santiago, 75, Filipino, has served as Independent Director of the Company since February 25, 2010. He was also an Independent Director of the Company from October 8, 2007 to April 30, 2009. He is the Chairman of the Company's Audit Committee and a Member of its Executive Committee, Executive Compensation Committee and Governance and Nomination Committee. He is also an Independent Director of SMFBI; an Independent Non-executive Director of SMBHK; and Director of Terbo Concept, Inc. and the Aurora Pacific Economic Zone Freeport Authority. He was a former Independent Director of SMC (2008-2013), GSMI (2010-2012), AIBC and Liberty Telecoms Holdings, Inc. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from the University of the East.

Alonzo Q. Ancheta, 85, Filipino, has served as an Independent Director of the Company since April 30, 2009 and is the Chairman of the Company's Governance and Nomination Committee and a Member of its Audit Committee. Atty. Ancheta is an Independent Director of PTFC Redevelopment Corporation and SMBHK; President of Zobella & Co. (A.Q. Ancheta and Partners): Trademark & Patent Attorneys; Co-Founding Partner/ Senior Adviser of Quasha Ancheta Peña & Nolasco Law Offices; Chairman and President of Ogilvy & Mather (Philippines), Inc.; President of Grove Investments Ltd.; and Member of the Board of Trustees of St. Luke's Medical Center. He is also a member of various organizations, including Intellectual Property Association of the Philippines (Council Adviser, 1998-present); International Trademark Association; LAWASIA; Inter-Pacific Bar Association; ASEAN Law Association (Philippine National Committee member, 1986-present and Vice Chair, 2001-present); ASEAN Intellectual Property Association; American Chamber of Commerce of the Philippines; Canadian Chamber of Commerce of the Philippines; Philippines-Japan Society, Inc.; Jaycees International (Senator); and For Love of Mother Earth, Inc. Atty. Ancheta holds a Bachelor of Arts Degree and Bachelor of Laws Degree from The University of Manila.

Carlos Antonio M. Berba, 53, Filipino, has served as Director of the Company since August 10, 2010. He is the Managing Director of SMBIL since January 1, 2008. He is also the Deputy Chairman of SMBHK; a Commissioner of PT Delta Djakarta Tbk (Indonesia) ("PTD"); and Chairman/Director of other subsidiaries of SMBIL. Mr. Berba holds a Bachelor of Science Degree in Electrical Engineering from the University of the Philippines, a Master's Degree in Japanese Business Studies from the Japan America Institute of Management Science & Chaminade University of Honolulu, and a Master's Degree in Business Administration from the Wharton School, University of Pennsylvania.

Takashi Hayashi*, 51, Japanese, has served as Director of the Company since May 27, 2014 and as Executive Vice President since March 30, 2016. He is a member of the Executive Committee, Audit Committee and Executive Compensation Committee of the Company; and a Director of IBI, BPI, BLI, SMBIL, SMBHK, San Miguel Holdings (Thailand) Limited and San Miguel Beer (Thailand) Limited. He was previously the Company's Executive Financial Advisor (2014-2016). Mr. Hayashi was also the Deputy Director of Group Finance of Kirin Holdings Company Limited (2013-2014); and Deputy General Manager of Finance and Accounting Department of Kirin Group Office Company, Limited (2011-2013). He also served in the Kirin group of

companies in various other capacities. Mr. Hayashi graduated from Keio University with a Bachelor of Arts Degree in Economics and is a Chartered Member of the Securities Analysts Association of Japan.

Toshiya Miyoshi, 59, Japanese, has served as Director of the Company since March 27, 2015. He is the Director and Senior Executive Officer of Kirin; and Senior Executive Officer of Kirin Company, Limited. He was also the Senior Executive Officer, Director of Group Personnel and General Affairs Department of Kirin and Senior Executive Officer, General Manager of Personnel Department of Kirin Company, Ltd. (2014-2015); Executive Officer, Director of Group Personnel and General Affairs Department of Kirin and Executive Officer, General Manager of Personnel Department of Kirin Company, Ltd. (2013-2014); and Executive Officer, General Manager of Personnel and General Affairs Department of Kirin and Director of the Board and General Manager of Personnel Department of Kirin Group Office Co. Ltd. (2012-2013). Mr. Miyoshi also served the Kirin group of companies in various other capacities. Mr. Miyoshi holds a Bachelor's Degree in Commerce from Waseda University, Japan.

Daniel L. Henares, 60, Filipino, has served as Director of the Company since May 31, 2016. He is consultant to SMC (since 2014), serving as the Assistant Team Manager of the Company's San Miguel Beer team, and a Director of Henlich Development Corporation (since 1995). He was also a consultant for business development of corporate accounts for cargo and passenger business in Philippine Airlines, Inc. (2013-2014). Mr. Henares holds a Bachelor of Laws Degree from Ateneo de Manila University and a Bachelor of Arts Degree in Political Science from De la Salle University.

Tomoki Yamauchi, 50, Japanese, has served as Director and as Executive Financial Advisor of the Company since October 1, 2017. He is a member of the Executive Committee and Audit Committee of the Company. He is also a Director of SMBIL, SMBHK and San Miguel Beer (Thailand) Limited. He was previously the Senior Manager of Accounting Department of Kirin Company, Limited; Senior Manager of Planning Department of Kirin Beverage Company, Limited (2016-September 2017); Senior Manager of Management Planning Department of Kirin Company, Limited; Senior Manager of Accounting Unit Group Finance of Kirin Holdings Company, Limited (2013-2016); and Senior Manager of Finance and Accounting Department of Kirin Group Office Company, Limited (2011-2013). Mr. Yamauchi graduated from Keio University with a bachelor's degree in Economics in 1992. He also completed a program for Management Development in Harvard Business School in 2004.

*Replaced by Mr. Kenji Uchiyama on March 29, 2018.

CORPORATE GOVERNANCE

San Miguel Brewery Inc. recognizes the importance of good governance in generating and sustaining shareholder value and safeguarding shareholders' rights and interests. It remains committed to conducting its business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all its business dealings.

The corporate governance practices observed by the Company in 2017 are described in this section.

SHAREHOLDER AND STAKEHOLDER RELATIONS

The Company adheres to corporate governance practices which promote shareholder and stakeholder rights in order to establish long-term and mutually-beneficial relationships.

Voting and Shareholder Meeting

Each share in the name of the shareholder entitles such shareholder to one vote which may be exercised in person or by proxy at shareholders' meetings, including the Annual Stockholders' Meeting (ASM). The agenda, date, time and place of the ASM meeting, and the deadlines for the submission and validation of proxies are disclosed more than one month prior to the ASM. In 2017, the Definitive Information Statement and Notices of the 2017 ASM were first sent to the stockholders on April 19, 2017.

Shareholders have the right to elect, remove and replace directors as well as vote on certain corporate acts in accordance with the Corporation Code. Shareholders vote viva voce, unless a motion to cast votes by ballot is made and duly seconded, and approved by the majority of the shareholders present or represented at the meeting as the method of voting.

Information and Investor Relations

The Company keeps the investing community and its stakeholders informed of its financials and performance, as well as leadership and governance, through timely disclosures, announcements and

periodic reports filed with the Securities and Exchange Commission (SEC) and Philippine Dealing & Exchange Corp. (PDEx), regular quarterly briefings, ASMs, investor conferences, website, emails and telephone calls. The Company, through the Investor Relations of the San Miguel Group of Companies, also holds regular briefings and meetings with investment and financial analysts.

Dividends

Under the dividend policy of the Company, common shareholders will receive annual cash dividends based on prior period's recurring net income at such amount to be determined by the Board of Directors after taking into consideration the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments, acquisitions, appropriate reserves and working capital. The Company paid out cash dividends of P0.72 per share in 2017.

Pre-emptive rights

Under the Company's amended articles of incorporation, shareholders may not subscribe to all issues of shares of the Company.

Suppliers, Creditors and Customers

The Company recognizes the importance of its suppliers, creditors and customers in the creation and growth of value, stability and long-term competitiveness of its business. The Company honors its obligations to its suppliers and creditors, including timely payment in accordance with agreements. The Company is committed to delivering products and services which delight and inspire loyalty in its customers.

DISCLOSURE AND TRANSPARENCY

San Miguel Brewery Inc. observes a high level of corporate disclosure and transparency regarding the Company's financial condition and state of corporate governance on a regular basis.

Ownership Structure

The top 20 common shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders prior to the ASM.

Financial Reporting

Regular updates on operating and financial information are provided to the investing community and stakeholders through adequate and timely disclosures filed with the SEC and the PDEX.

Full-year audited and quarterly interim financial statements are disclosed and submitted to the SEC and PDEX in accordance with prescribed rules. These financial statements conform to the Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with the International Accounting Standards. The financial results are presented to financial and investment analysts through a quarterly analysts' briefing. The full year results are also distributed to the shareholders prior to the ASM.

In addition to compliance with structural reportorial requirements, the Company discloses, in a timely manner, market-sensitive information, such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets that affect the share price performance. These disclosures and other up-to-date and relevant information on the Company may be found at its website, www.sanmiguelbrewery.com.ph.

Annual Corporate Governance Report

The Company's Annual Corporate Governance Report (ACGR) contains comprehensive information, among others, on the Company's board composition, disclosure policies, policies on code of conduct and ethics, related party transactions, risk management system, remuneration process, policies relating to shareholder and stakeholder rights, and investor relations programs. It is posted on the Company's website and is updated in accordance with the structured reports and letters of advice submitted to the SEC from time to time.

The SEC has considered the Company to be a listed company for purposes of compliance with the SEC ACGR rules, as the Company's bonds are listed on the PDEX. The SEC required the Company to comply with ACGR guidelines for as long as its bond issues are listed in the PDEX.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to external and internal auditors.

External Auditor

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for fiscal year 2017. The external auditor is appointed by the shareholders upon the nomination of the Board after the recommendation of the Audit Committee, and rotated every five years or earlier in accordance with SEC regulations.

Audit Fees amounting to P 7.04 million in 2017 were paid by the Company to the external auditor.

The external auditor facilitates an environment of good corporate governance as reflected in the Company's financial records and reports, through the conduct of an independent annual audit on the Company's business and rendition of an objective opinion on the reasonableness of such records and reports. They also attend the ASM and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

Internal Audit

Internal audit is carried out by an independent internal audit group which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The internal audit group of the Company functionally reports directly to the Audit Committee, and administratively (i.e. day-to-day operations) to the Chief Finance Officer and Treasurer.

The role, authority, organization and responsibilities of the internal audit group are set out in the Internal Audit Charter which was adopted by the Company in 2017. Under the Internal Audit Charter, the internal audit group of the Company is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating their effectiveness

and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

AMENDED MANUAL ON CORPORATE GOVERNANCE

The Company amended its Manual on Corporate Governance (Manual) pursuant to the new Code of Corporate Governance for publicly-listed companies and submitted the same to the SEC on May 31, 2017, in compliance with SEC Memorandum Circular No. 19, series of 2016. The Company likewise updated the charters of its Audit Committee, Nomination and Governance Committee and Executive Compensation Committee to align the same with its amended Manual.

BOARD OF DIRECTORS

The Company's Board of Directors is at the core of the Company's corporate governance framework and practice. It is the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the Company, its shareholders, and other stakeholders. It exercises oversight of the business, affairs and integrity of the Company; and determines the Company's mission, long-term strategy and objectives.

The Board is likewise responsible for the review and approval of the Company's financial statements. The directors consider that the Company's financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of management and the Board with an appropriate consideration to materiality.

Composition

The Board consists of eleven members as at end-December 2017. Mr. Katsuhiko Matsumoto resigned on April 1, 2017 and was replaced by Mr. Fumiaki Ozawa. Mr. Ozawa resigned on October 1, 2017 and was replaced by Mr. Tomoki Yamauchi.¹

Each director is elected by the stockholders with voting rights during the ASM, or by the remaining directors constituting at least a majority of the Board for those elected to replace outgoing directors and serve the remainder of such outgoing director's term. The Board members hold office for one year until successors are duly elected and qualified in accordance with the amended by-laws of the Company, its Manual and applicable rules and regulations. The Board possesses a broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensure comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests.

Two of the directors, Atty. Alonzo Q. Ancheta and Mr. Carmelo L. Santiago sit as independent and non-executive directors. The Company defines an independent director as a director who, apart from his fees and shareholdings, has no business or relationship with the Company which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. The independent directors are nominated and elected in accordance with the rules of the SEC. Pursuant to such rules, the independent directors issue a certification confirming their independence at the time of their election and/or re-election.

The Chairman and the President

The Chairman of the Board is Mr. Ramon S. Ang, a non-executive director, while Mr. Roberto N. Huang holds the position of President. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability and responsibility in the discharge of their duties.

¹Mr. Katsuhiko Matsumoto resigned as Director, Executive Financial Advisor and as member of the Executive Committee and Audit Committee on April 1, 2017 and was replaced by Mr. Fumiaki Ozawa. Mr. Ozawa resigned as Director, Executive Financial Advisor and as member of the Executive Committee and Audit Committee on October 1, 2017 and was replaced by Mr. Tomoki Yamauchi. Mr. Takashi Hayashi resigned as Director, Executive Vice President and as member of the Executive Committee, Audit Committee and Executive Compensation Committee on March 29, 2018 and was replaced by Mr. Kenji Uchiyama.

Board Performance and Attendance

The Board held seven meetings in 2017. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the Board of Directors and at the same time communicate with the Board, management, the Company's shareholders and the investing public. Below is the record of attendance of the directors at these meetings and at the ASM.

	Mar 13	May 5	May 30	Aug 4	Nov 3	Nov 3 (special meeting)	Dec 8	ASM
Ramon S. Ang*	✓	✓	✓	✓	✓	✓	✓	✓
Roberto N. Huang*	✓	✓	✓	✓	✓	✓	✓	✓
Ferdinand K. Constantino*	✓	✓	✓	✓	✓	✓	✓	✓
Keisuke Nishimura*	✓	✓	✓	✓	✓	✓	✓	✓
Alonzo Q. Ancheta*	✓	✓	✓	✓	x	x	✓	✓
Carmelo L. Santiago*	✓	x	✓	✓	x	✓	✓	✓
Carlos Antonio M. Berba*	✓	✓	✓	✓	✓	✓	✓	✓
Takashi Hayashi ^(a)	✓	✓	✓	✓	✓	✓	✓	✓
Toshiya Miyoshi*	✓	✓	✓	✓	✓	✓	✓	✓
Katsuhiko Matsumoto ^(b)	✓	-	-	-	-	-	-	-
Daniel L. Henares*	✓	✓	✓	✓	✓	✓	✓	✓
Fumiaki Ozawa ^(c)	-	✓	✓	✓	-	-	-	✓
Tomoki Yamauchi ^(d)	-	-	-	-	✓	✓	✓	-

✓ Present

x Absent

- Not Applicable

^(a) Resigned as director effective March 29, 2018 and replaced by Mr. Kenji Uchiyama.

^(b) Resigned as director effective April 1, 2017.

^(c) Replaced Mr. Katsuhiko Matsumoto as director effective April 1, 2017 and re-elected at the May 30, 2017 ASM.
Resigned as director effective October 1, 2017.

^(d) Replaced Mr. Fumiaki Ozawa as director effective October 1, 2017.

* Elected at the May 31, 2016 ASM and re-elected at the May 30, 2017 ASM.

Board Remuneration

Each director receives a reasonable per diem allowance of P20,000 and P10,000 for each Board and Board Committee meeting, respectively, attended by such director. Other than these per diem amounts, there are no standard arrangements pursuant to which the directors of the Company are compensated for services rendered by them.

BOARD COMMITTEES

To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee

The Executive Committee is composed of five directors. Mr. Ramon S. Ang sits as Chairman of the Committee with Mr. Roberto N. Huang, Mr. Carmelo L. Santiago (independent director), Mr. Takashi Hayashi² and Mr. Tomoki Yamauchi as members. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of such powers as provided in the Company's Articles of Incorporation, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee did not hold meetings in 2017.

Governance and Nomination Committee

The Governance and Nomination Committee is composed of three voting directors – Atty. Alonzo Q. Ancheta, an independent director and the Chairman of the Committee, Mr. Ferdinand K. Constantino and Mr. Carmelo L. Santiago (also an independent director), and two non-voting members – Ms. Mercy Marie J. L. Amador, the Company's Chief Finance Officer and Treasurer, and Ms. Lynn B. Santos, the Company's Vice President, Business Planning and Quality and Productivity Management Manager.

The Governance and Nomination Committee is responsible for making recommendations to the Board of Directors on matters relating to the directors' appointment, election and succession, with the view of appointing individuals to the Board of Directors with the relevant experience and capabilities to maintain and improve the competitiveness of the Company and increase its value. The Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Company's Manual, the amended articles of incorporation and amended by-laws of the Company and applicable laws, rules and regulations.

The Governance and Nomination Committee also assists the Board in its oversight responsibilities in the development and implementation of the corporate governance principles, policies and systems of the Company, and in the establishment and implementation of mechanisms for the assessment and improvement of the performance of the Board of Directors, its members and the Board Committees, and evaluation of the Company's compliance with the Manual.

The Committee held four meetings in 2017 in which the Committee discussed and deliberated on, among others, the qualification of the nominees for election to the Board both to replace resigning directors and for election at the 2017 ASM; and approved the amendments to the Manual pursuant to the SEC Code of Corporate Governance and the amendments to the Governance and Nomination Committee Charter to align the same with the Manual.

Executive Compensation Committee

Three directors comprise the Executive Compensation Committee: Mr. Ferdinand K. Constantino, Mr. Takashi Hayashi² and Mr. Carmelo L. Santiago, an independent director. Mr. Ferdinand K. Constantino is the Chairman of the Committee. The Executive Compensation Committee advises and assists the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration, succession planning, promotion and career advancement, and provides oversight over remuneration of directors, senior management and other key personnel to ensure that the Company's compensation scheme fairly and responsibly reward directors and executives based on their performance and the performance of the Company, and remain competitive to attract and retain directors and officers who are needed to run the Company successfully.

The Committee held four meetings in 2017 to review, discuss and endorse for Board approval Management's proposed promotions to officership and approve the amendments to the Executive Compensation Committee Charter to align the same with the Manual.

² Mr. Takashi Hayashi resigned as Director, Executive Vice President and as member of the Executive Committee, Audit Committee and Executive Compensation Committee on March 29, 2018 and was replaced by Mr. Kenji Uchiyama.

Audit Committee

The Audit Committee is composed of five members with two independent directors as members, Mr. Carmelo L. Santiago, who also sits as Committee Chairman, and Atty. Alonzo Q. Ancheta. The other members are Mr. Ferdinand K. Constantino, Mr. Takashi Hayashi² and Mr. Tomoki Yamauchi.

The Audit Committee is responsible for assisting the Board of Directors in discharging its corporate governance and fiduciary duties in relation to financial reporting, internal control structure, internal and external audit processes, compliance with applicable laws and regulations, risk management systems and material related party transactions. It reviews and monitors, among others, the integrity of all financial statements and reports and ensures their compliance with pertinent accounting standards and regulatory requirements. It also evaluates the adequacy and effectiveness of its internal control procedures and enterprise risk management framework and processes, performs oversight financial management functions, approves audit plans, directly interfaces with internal and external auditors, elevates to international standards the accounting and auditing processes, practices, and methodologies of the Company, and reviews material related party transactions.

The Company's Audit Committee has oversight function on risk management; while at the management level, the risk management function is headed by the Chief Risk Officer.

The Audit Committee held four meetings in 2017 wherein the Committee reviewed and approved, among others, the Company's 2016 Audited Financial Statements and the Company's unaudited interim quarterly financial statements for the first to the third quarters of the year, as prepared by Management; the Internal Audit Charter; and the amendments to the Audit Committee Charter to align the same with the Manual. The Audit Committee likewise monitored and reviewed the adequacy and effectiveness of the Company's internal control systems through the regular reports of the internal audit. The Committee was appraised of the latest developments in regulatory requirements through the reports of the Compliance Officer.

Board Committee Attendance

The attendance of the members at the Board Committee meetings in 2017 is set out in the table below.

	Executive	Audit	Executive Compensation	Governance and Nomination
Ramon S. Ang	C (0/0)			
Roberto N. Huang	M (0/0)			
Ferdinand K. Constantino		M (4/4)	C (4/4)	M (4/4)
Alonzo Q. Ancheta		M (3/4)		C (3/4)
Carmelo L. Santiago	M (0/0)	C (2/4)	M (3/4)	M (2/4)
Takashi Hayashi ^(a)	M (0/0)	M (4/4)	M (4/4)	
Katsuhiko Matsumoto ^(b)	M(0/0)	M (1/1)		
Fumiaki Ozawa ^(c)		M (2/2)		
Tomoki Yamauchi ^(d)		M (1/1)		
Mercy Marie J.L. Amador				M (4/4)
Lynn B. Santos				M (3/4)

*No meetings held in 2017.

C - Chairman

M - Member

^(a) Resigned as member of the Executive Committee (EC), Executive Compensation Committee and Audit Committee (AC) effective March 29, 2018.

^(b) Resigned as member of the EC and AC effective April 1, 2017.

^(c) Appointed as member of the EC and AC effective April 1, 2017. Resigned as member of the EC and AC effective October 1, 2017.

^(d) Appointed as member of the EC and AC effective October 1, 2017.

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the President and the senior key executives of the Company are set out in the Definitive Information Statement distributed to shareholders.

HUMAN RESOURCES

The Company continues to support and dedicate resources for the training and development of its human resources. As such, career advancement and development opportunities are provided by the Company through numerous training programs and seminars.

The Company ensures that it provides its employees with a safe and healthy work environment. The Company has an in-house clinic at its main office to take care of the employees' medical needs. Each brewery also has its own clinic. It is mandatory for employees to undergo an annual medical examination. Further, the Company has also initiated activities centered on the safety, health and welfare of its employees.

The Company's permanent employees also enjoy a funded, noncontributory retirement plan.

Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook. The Employee Handbook, which is provided to each employee, also contains the policies, guidelines for the duties and responsibilities of an employee of San Miguel Brewery Inc.

Through internal newsletters, and Company e-mails all facilitated by the Human Resources and the Business Affairs and Communications Department of the Company, employees are updated on material developments within the organization.

POLICIES

Securities Dealing

The Company has adopted a policy which regulates the acquisition and disposal of Company shares by its directors, officers and employees, and the use and disclosure of material non-public information by persons who have knowledge or are in possession thereof.

Whistleblowing Policy

Procedures were also established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit Committee under its whistleblowing policy.

These policies are available on the Company's website.

Code of Conduct

The Company also adopted a Code of Ethics that sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers and employees of the Company.

COMPLIANCE MONITORING

Atty. Rosabel Socorro T. Balan is the Company's Compliance Officer. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of its Manual and ensuring adherence to corporate principles and best practices. The Compliance Officer holds the position of Vice President and has direct reporting responsibilities to the Chairman of the Board.

OPERATIONS COMMITTEE

as of December 31, 2017

DOMESTIC OPERATIONS

Roberto N. Huang
President

Takashi Hayashi*
Executive Vice President

Mercy Marie Jacqueline L. Amador
VP and Chief Finance Officer and Treasurer

Tomoki Yamauchi**
Executive Financial Advisor

Minerva Lourdes B. Bibonia
SVP and Marketing Manager

Atty. Rosabel Socorro T. Balan
VP, General Counsel, Corporate Secretary
and Compliance Officer

Debbie D. Namalata
VP and National Sales Manager

Rebecca S. Flores
VP and Brewing Technical Group Manager

Rene T. Ceniza
VP and National Logistics Manager

Feliciano M. Madlansacay
VP and Finance Operations Manager

Enrico E. Reyes
VP and Human Resources and Business Affairs
and Communications Head

Rodney Ralph D. Holmes
VP and Executive Assistant to the President
and Financial Planning and Analysis Manager

Lynn B. Santos
VP and Business Planning and Quality
and Productivity Management Manager

Manuel M. Moreno
AVP and Manufacturing Manager

Alma Leonora C. Javenia
AVP and Information Systems
Management Manager

Dario S. Feliciano
AVP and Business Procurement Group Head

INTERNATIONAL OPERATIONS

Carlos Antonio M. Berba
SMBIL Managing Director

Fumiaki Ozawa***
SMBIL Executive Vice President

Frederick R. Mariano
VP and SMBIL Chief Financial Officer

Jesus J. Bitanga, Jr.
VP and SMBIL International Sales Manager

Frederick Gerard S. Martelino
VP and SMBIL Export Development Manager

Ernest John F. Estrera
VP and SMBIL Marketing Manager

Carmela R. Ortiz
VP and SMBIL Business Planning Manager

Daniel T. de Castro, Jr.
AVP and SMBIL Human Resources Manager

Daniel B. Trajano II
AVP and SMBIL Logistics Manager

Clifford T. Que
AVP and SMBIL Information Systems
Management Manager

* Replaced by Mr. Kenji Uchiyama as Executive Vice President effective March 29, 2018.

** Replaced Mr. Fumiaki Ozawa as Executive Financial Advisor effective October 1, 2017.

Mr. Ozawa replaced Mr. Katsuhiko Matsumoto as Executive Financial Advisor effective April 1, 2017.

***Replaced Mr. Takeshi Wada as SMBIL Executive Vice President effective October 1, 2017.



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **San Miguel Brewery 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, 2017, 2016 and 2015, 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 the 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 or members.

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.

							
							
	Ramon S. Ang Chairman of the Board						
							
			Mercy Marie J. L. Amador Chief Finance Officer and Treasurer				

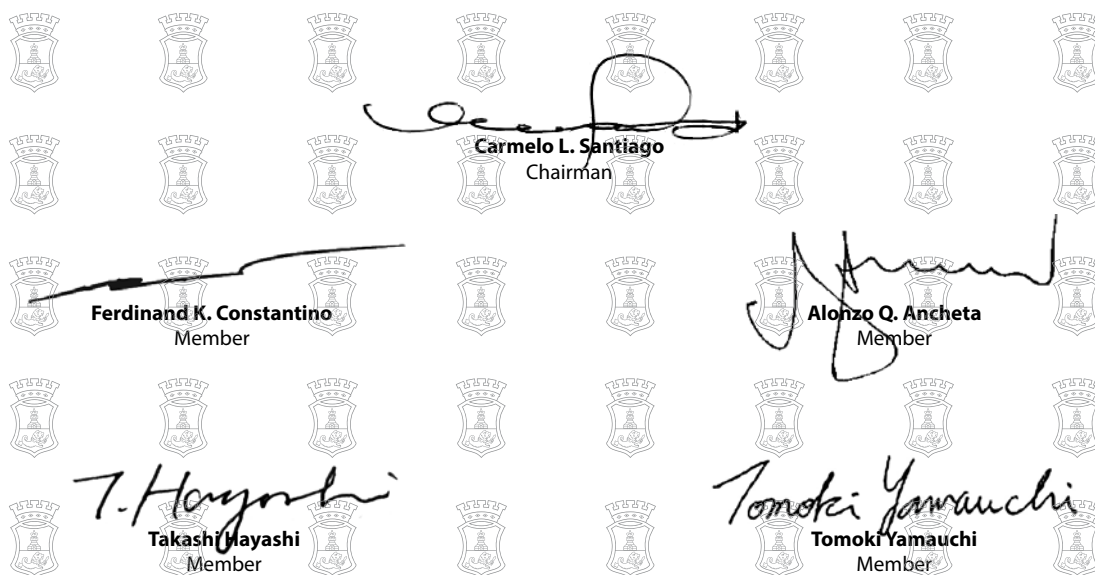
Signed this 9th day of March 2018

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2017

The Audit Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit Committee performed the following in 2017:

- recommended to the Board of Directors the re-appointment of R.G. Manabat & Co. as external auditors of the Company for 2017;
- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;
- reviewed and approved the scope of the audit and audit programs of the internal and external auditors, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition, and comply with the regulatory requirements of the Securities and Exchange Commission;
- reviewed and recommended for approval of the Board of Directors the Company's Internal Audit Charter; and
- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.



Carmelo L. Santiago
Chairman

Ferdinand K. Constantino
Member

Alonzo Q. Ancheta
Member

Takashi Hayashi
Member

Tomoki Yamauchi
Member



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 Philippines 1226
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 Fax +63 (2) 894 1985
 Internet www.kpmg.com.ph
 Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Brewery Inc.
 No. 40 San Miguel Avenue
 Mandaluyong City

Opinion

We have audited the consolidated financial statements of San Miguel Brewery Inc. and its Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, and notes, comprising 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, 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 audits 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.

Impairment of Trademarks and Brand names (P33,572 million)
 Refer to Note 14 to the consolidated financial statements.

The risk

The Group has assessed that the trademarks and brand names have indefinite useful lives in view of the fact that there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group. Trademarks and brand names represent 31% of the consolidated total assets of the Group. As required by Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, impairment testing is required annually for intangible assets with indefinite useful lives, irrespective of whether there is an indication that the related assets may be impaired.



Accordingly, we focused on this area because of the subjectivity and complexity of determining the recoverable amounts which involve significant estimation uncertainty. As a result, we assessed that the impairment testing is a key audit matter.

Our response

Our audit work included an evaluation and assessment of the methodology applied in the impairment review in accordance with PAS 36. We have updated our understanding of the management's annual impairment process. We evaluated the reasonableness of the future cash flow forecasts by comparing them with the latest Board of Directors' approved budgets and considering the historical accuracy of management's forecasts by comparing prior year forecasts to actual results. We challenged the key assumptions for long term growth rates in the forecasts by comparing them with historical results, economic and industry forecasts; and the discount rate used by recalculating the Group's weighted average cost of capital using market comparable information. We have involved our own valuation specialist in the evaluation. We have also assessed the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

Revenue Recognition (P113,255 million)

Refer to Note 3 to the consolidated financial statements.

The risk

The Group's revenue is mainly generated from selling and distribution of fermented, malt-based and non-alcoholic beverages. Significant risk of misstatement is associated with the operations of the Parent Company particularly with its sales to outlets (direct selling). The nature of Parent Company's operations poses a risk that revenue recognized may be inconsistent with the requirements of PAS 18, *Revenue*, since there is a timing difference between recording the transaction and transfer of significant risks and rewards of ownership to the customers. Revenue may be inappropriately recognized in order to improve business results and achieve capital and revenue growths in line with the objectives of the Group. Moreover, due to the materiality of revenue in the consolidated financial statements, it is deemed as one of our key audit matters.

Our response

Our audit work included, evaluation and assessment of the revenue recognition policies of the Group in accordance with PAS 18. We have identified and assessed key controls over the revenue process. We have also involved our Information Technology (IT) specialists to assist in the audit of automated controls, including interface controls between different IT applications for the evaluation of relevant IT systems and the design and operating effectiveness of controls over the recording of revenue transactions. We tested revenue throughout the period by selecting sample of transactions to ascertain that it met the revenue recognition criteria and traced it to source documentation to ensure propriety of recording. We checked whether transactions were recorded in the appropriate accounting period to assess whether revenue was complete and existing. In addition, a combination of third party confirmations and testing of subsequent collections of accounts receivable were conducted. We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

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, 2017, 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, 2017 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 Enrico E. Baluyut.

R.G. MANABAT & CO.

A handwritten signature in black ink, appearing to read 'Enrico E. Baluyut'.

ENRICO E. BALUYUT

Partner

CPA License No. 065537

SEC Accreditation No. 1177-AR-1, Group A, valid until April 30, 2018

Tax Identification No. 131-029-752

BIR Accreditation No. 08-001987-26-2017

Issued September 4, 2017; valid until September 3, 2020

PTR No. 6615127MD

Issued January 3, 2018 at Makati City

March 9, 2018

Makati City, Metro Manila

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(In Millions)

	<i>Note</i>	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	<i>7, 32, 33</i>	P28,297	P22,015
Trade and other receivables - net	<i>8, 27, 32, 33</i>	4,995	5,058
Inventories	<i>9</i>	4,032	4,914
Prepaid expenses and other current assets	<i>10, 32, 33</i>	1,629	1,269
Total Current Assets		38,953	33,256
Noncurrent Assets			
Investments	<i>11, 32, 33</i>	41	41
Property, plant and equipment - net	<i>4, 12</i>	18,732	18,579
Investment property - net	<i>4, 13</i>	1,323	1,807
Intangible assets - net	<i>4, 14</i>	36,808	36,171
Deferred tax assets	<i>18</i>	1,317	1,435
Other noncurrent assets - net	<i>4, 15, 27, 29, 32, 33</i>	12,109	10,302
Total Noncurrent Assets		70,330	68,335
		P109,283	P101,591
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	<i>16, 27, 32, 33</i>	P9,032	P8,098
Income and other taxes payable	<i>18</i>	3,685	3,435
Current maturities of long-term debt - net of debt issue costs	<i>17, 32, 33</i>	-	2,998
Total Current Liabilities		12,717	14,531
Noncurrent Liabilities			
Long-term debt - net of debt issue costs	<i>17, 32, 33</i>	34,665	34,619
Deferred tax liabilities	<i>18</i>	26	113
Other noncurrent liabilities	<i>29</i>	1,091	1,570
Total Noncurrent Liabilities		35,782	36,302

Forward

	<i>Note</i>	2017	2016
Equity	<i>19</i>		
Equity Attributable to Equity Holders of the Company			
Capital stock		P15,410	P15,410
Additional paid-in capital		515	515
Equity reserves		(1,481)	(2,199)
Retained earnings:			
Appropriated		15,010	5,200
Unappropriated		29,076	29,768
Treasury stock		(1,029)	(1,029)
		57,501	47,665
Non-controlling Interests	<i>2</i>	3,283	3,093
Total Equity		60,784	50,758
		P109,283	P101,591

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions, Except Per Share Data)

	<i>Note</i>	2017	2016	2015
SALES	6, 27	P113,255	P97,160	P82,374
COST OF SALES	20, 27	62,974	52,309	44,811
GROSS PROFIT		50,281	44,851	37,563
SELLING AND ADMINISTRATIVE EXPENSES	21	(19,120)	(17,663)	(14,932)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	17, 24	(2,283)	(2,684)	(2,597)
IMPAIRMENT LOSS ON NONCURRENT ASSETS	26	(534)	-	(1,011)
INTEREST INCOME	7	534	361	261
OTHER INCOME - Net	25	210	154	55
INCOME BEFORE INCOME TAX		29,088	25,019	19,339
INCOME TAX EXPENSE	18	8,377	7,361	5,821
NET INCOME	6	P20,711	P17,658	P13,518
Attributable to:				
Equity holders of the Company		P20,178	P17,217	P13,251
Non-controlling interests		533	441	267
		P20,711	P17,658	P13,518
Basic and Diluted Earnings Per Share	30	P1.31	P1.12	P0.86

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	<i>Note</i>	2017	2016	2015
NET INCOME		P20,711	P17,658	P13,518
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan	29	230	650	(309)
Income tax	18	(61)	(184)	80
		169	466	(229)
Item that will be reclassified to profit or loss				
Gain on exchange differences on translation of foreign operations and others - net of tax		444	942	156
		444	942	156
OTHER COMPREHENSIVE INCOME (LOSS) - Net of Tax		613	1,408	(73)
TOTAL COMPREHENSIVE INCOME		P21,324	P19,066	P13,445
Attributable to:				
Equity holders of the Company		20,896	P18,435	P13,106
Non-controlling interests		428	631	339
		P21,324	P19,066	P13,445

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	Equity Attributable to Equity Holders of the Company									
		Equity Reserves					Appropriated		Unappropriated		
		Capital Stock (Note 19)	Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve (P9)	Cumulative Translation Adjustments Reserve	Retained Earnings (Note 19)	Treasury Stock (P1,029)	Total	Non-controlling Interests	Total Equity
As of January 1, 2017		P15,410	P515	(P2,266)	(P9)	P76	P5,200	P29,768	P47,665	P3,093	P50,758
Net income		-	-	-	-	-	-	20,178	20,178	533	20,711
Other comprehensive income:											
Gain on exchange differences on translation of foreign operations and others - net of tax		-	-	-	12	550	-	-	562	(118)	444
Equity reserve for retirement plan - net of tax	29	-	-	156	-	-	-	-	156	13	169
Total comprehensive income		-	-	156	12	550	-	20,178	20,896	428	21,324
Cash dividends		-	-	-	-	-	-	(11,060)	(11,060)	(238)	(11,298)
Appropriation		-	-	-	-	-	9,810	(9,810)	-	-	-
As of December 31, 2017		P15,410	P515	(P2,110)	P3	P626	P15,010	P29,076	P57,501	P3,283	P60,784

Forward

Equity Attributable to Equity Holders of the Company													
	Note	Capital Stock (Note 19)	Additional Paid-in Capital	Reserve for Retirement Plan	Equity Reserves			Appropriated		Unappropriated	Non-controlling Interests	Total	Total Equity
					Fair Value Reserve	Cumulative Translation Adjustments Reserve	Retained Earnings (Note 19)	Treasury Stock					
As of January 1, 2016		P15,410	P515	(P2,709)	(P9)	(P699)	P -	P27,890	(P1,029)	P39,369	P2,622	P41,991	
Net income		-	-	-	-	-	-	17,217	-	17,217	441	17,658	
Other comprehensive income: Gain on exchange differences on translation of foreign operations and others - net of tax		-	-	-	-	775	-	-	-	775	167	942	
Equity reserve for retirement plan - net of tax	29	-	-	443	-	-	-	-	-	443	23	466	
Total comprehensive income		-	-	443	-	775	-	17,217	-	18,435	631	19,066	
Cash dividends		-	-	-	-	-	-	(10,139)	-	(10,139)	(160)	(10,299)	
Appropriation		-	-	-	-	-	5,200	(5,200)	-	-	-	-	
As of December 31, 2016		P15,410	P515	(P2,266)	(P9)	P76	P5,200	P29,768	(P1,029)	P47,665	P3,093	P50,758	
Forward													

Equity Attributable to Equity Holders of the Company											
	Note	Capital Stock (Note 19)	Additional Paid-in Capital	Equity Reserves					Total	Non- controlling Interests	Total Equity
				Retirement Plan	Fair Value Reserve	Cumulative Translation Adjustments Reserve	Retained Earnings	Treasury Stock			
As of January 1, 2015		P15,410	P515	(P2,498)	(P9)	(P765)	P24,164	(P1,029)	P35,788	P2,466	P38,254
Net income		-	-	-	-	-	13,251	-	13,251	267	13,518
Other comprehensive income (loss):											
Gain on exchange differences on translation of foreign operations and others - net of tax	29	-	-	-	-	66	-	-	66	90	156
Equity reserve for retirement plan		-	-	(211)	-	-	-	-	(211)	(18)	(229)
Total comprehensive income (loss)		-	-	(211)	-	66	13,251	-	13,106	339	13,445
Cash dividends		-	-	-	-	-	(9,525)	-	(9,525)	(183)	(9,708)
As of December 31, 2015		P15,410	P515	(P2,709)	(P9)	(P699)	P27,890	(P1,029)	P39,369	P2,622	P41,991

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P29,088	P25,019	P19,339
Adjustments for:				
Depreciation, amortization and others	22	3,523	4,213	2,928
Interest expense and other financing charges	17, 24	2,283	2,684	2,597
Provision for (reversal of) impairment losses on receivables and inventories	8, 9	773	727	(2)
Retirement costs	29	598	598	590
Impairment loss on noncurrent assets	26	534	-	1,011
Loss (gain) on sale of property and equipment and investment	25	3	(21)	(9)
Interest income		(534)	(361)	(261)
Operating income before working capital changes		36,268	32,859	26,193
Decrease (increase) in:				
Trade and other receivables		272	(327)	1,123
Inventories		716	(762)	(361)
Prepaid expenses and other current assets		(369)	(134)	(183)
Increase (decrease) in:				
Accounts payable and accrued expenses		983	1,053	1,046
Other taxes payable		191	106	90
Other noncurrent liabilities		6	(6)	1
Cash generated from operations		38,067	32,789	27,909
Income taxes paid		(8,349)	(6,938)	(5,833)
Interest paid	17	(2,279)	(2,633)	(2,525)
Contributions paid		(838)	(1,566)	(1,028)
Net cash flows provided by operating activities		26,601	21,652	18,523
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		516	355	258
Proceeds from sale of:				
Property and equipment		7	14	12
Investments		4	35	-
Increase in intangible assets and other noncurrent assets		(4,827)	(4,653)	(2,292)
Additions to:				
Property, plant and equipment	12	(1,747)	(1,218)	(1,026)
Investment property	13	-	-	(4)
Net cash flows used in investing activities		(6,047)	(5,467)	(3,052)

Forward

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Cash dividends	19	(P11,059)	(P10,138)	(P9,525)
Long-term debt	17	(3,000)	-	-
Dividends to non-controlling shareholders		(240)	(159)	(183)
Redemption of common shares		-	-	(6)
Cash flows used in financing activities		(14,299)	(10,297)	(9,714)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		27	277	207
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,282	6,165	5,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,015	15,850	9,886
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P28,297	P22,015	P15,850

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share and Number of Shares Data)

1. Reporting Entity

San Miguel Brewery Inc. (SMB or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the Group). The Company is a public company under Section 17.2 of the Securities Regulation Code and its Peso-denominated fixed rate bonds issued in 2009, 2012 and 2014 are listed on the Philippine Dealing & Exchange Corp. (PDEX).

The Company's common shares were listed on the Philippine Stock Exchange, Inc. (PSE) on May 12, 2008. The Company filed a petition for voluntary delisting with the PSE following the PSE's adoption of the minimum public ownership rule and denial by SEC of all requests made (including the Company's request) for the extension of the grace period to comply with such rule. The petition was approved by the PSE on April 24, 2013 and the Company's common shares were delisted effective May 15, 2013 (Note 19).

San Miguel Corporation (SMC) is the parent company of the Group. Top Frontier Investment Holdings, Inc. (TFIH) is the ultimate parent company of the Group.

The Group is primarily engaged in manufacturing, selling and distribution of fermented, malt-based and non-alcoholic beverages. The Group is also engaged in acquiring, developing and licensing trademarks and intellectual property rights and in the management, sale, exchange, lease and holding for investment of real estate of all kinds including buildings and other structures.

The registered office address of the Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

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 (IFRS) issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the 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 9, 2018.

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 Bases
Derivative financial instruments	Fair value
Available-for-sale (AFS) financial assets	Fair value
Net 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 amounts have been rounded-off to the nearest million (000,000), unless otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Name of Subsidiary	Place of Business	Proportion of Ownership Interest Held by the		Effective Equity Interest of the Company*	Line of Business
		Company	Subsidiaries		
Iconic Beverages, Inc. (IBI)	Philippines	100	-	100	Licensing trademarks
San Miguel Brewing International Limited (SMBIL)	British Virgin Islands	100	-	100	Manufacture and sale of beer
Neptunia Corporation Limited (NCL)	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited Taiwan Branch	Taiwan	-	100	100	Beer distribution
San Miguel Brewery Hong Kong Limited (SMBHK)	Hong Kong	-	65.8	65.8	Manufacture and sale of beer
Ravelin Limited	Hong Kong	-	100	65.8	Property holding
Best Investments International Inc.	British Virgin Islands	-	100	65.8	Investment holding
Hong Kong Brewery Limited	Hong Kong	-	100	65.8	Dormant
San Miguel Shunde Holdings Limited (SMSH)	Hong Kong	-	92	60.5	Investment holding
San Miguel (Guangdong) Brewery Co. Ltd. (SMGB)	People's Republic of China	-	100	60.5	Manufacture and sale of beer
San Miguel (Guangdong) Limited (SMGL)	Hong Kong	-	93	61.2	Investment holding
Guangzhou San Miguel Brewery Co. Ltd. (GSMB)	People's Republic of China	-	70	42.8	Beer distribution
San Miguel (China) Investment Company Limited (SMCIC)	People's Republic of China	-	100	100	Investment holding
San Miguel (Baoding) Brewery Co. Ltd. (SMBB)	People's Republic of China	-	100	100	Manufacture and sale of beer
San Miguel Holdings (Thailand) Limited (SMHTL)	Thailand	-	49	49	Investment holding
San Miguel Beer (Thailand) Limited (SMBTL)	Thailand	-	100	49	Manufacture and sale of beer
San Miguel Marketing (Thailand) Co. Ltd. (SMMTL)	Thailand	-	100	100	Trading

Forward

Name of Subsidiary	Place of Business	Proportion of Ownership Interest Held by the		Effective Equity Interest of the Company*	Line of Business
		Company	Subsidiaries		
Dragon Island Investments Limited (DILL)	British Virgin Islands	-	100	100	Investment holding
San Miguel (Vietnam) Limited (SMVL)	Bermuda	-	100	100	Investment holding
San Miguel Brewery Vietnam Company Limited (SMBVL)	Republic of Vietnam	-	100	100	Manufacture and sale of beer
San Miguel Malaysia Pte. Ltd	Malaysia	-	100	100	Investment holding
PT. Delta Djakarta Tbk. and Subsidiary (PTD)	Republic of Indonesia	-	58.3	58.3	Manufacture and sale of beer
Brewery Properties Inc. (BPI)	Philippines	40	-	40	Property holding
Brewery Landholdings, Inc. (BLI)	Philippines	-	100	40	Property holding

* Represents the ultimate equity interest in the subsidiary at the level of the Company after taking into consideration the dilutive effects of the non-controlling interests at the various intervening levels of ownership.

There are no changes to the Group's ownership structure as of December 31, 2017 and 2016.

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 a 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 continues 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.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income, and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Company.

Non-controlling interests include the interests not held by the Group in PTD, SMBTL, SMHTL, SMBHK group and BPI group in 2017 and 2016.

A change in the ownership interest of 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, the carrying amount of any non-controlling interests and the cumulative translation 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 profit or loss; and, (iii) reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretations

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

Amendments to Standards Adopted in 2017

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

- Disclosure initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments resulted in improved disclosures about the net debt of an entity relevant to the understanding of its 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.
- 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.

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

New and Amended Standards and Interpretations Not Yet Adopted

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

- 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, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements.

PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

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

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Based on the Group's initial assessment, the adoption of PFRS 9 will have no significant effect on the classification of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment. The Group has not yet reasonably estimated further potential impact of such model on its consolidated financial statements.

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

The amendments can be applied prospectively for annual periods beginning on or after January 1, 2018, with retrospective or early application permitted.

- **PFRS 15, *Revenue from Contracts with Customers*,** replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRS Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretations Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary 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. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedients. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. Based on the Group's initial assessment, the Group's revenue remains to be recognized at a point in time, net of discounts and allowances, at which the customer accepts the goods and the related risks and rewards of ownership are transferred. The transfer of the control over the goods coincides with its delivery and acceptance by the customer. The Group has not yet reasonably estimated further potential impact on its consolidated financial statements.

- **Transfers of Investment Property (*Amendments to PAS 40, Investment Property*).** The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

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

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. The Group is currently assessing the potential impact of the new standard.

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

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

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

- **Prepayment Features with Negative Compensation (*Amendments to PFRS 9*).** The amendments cover the following areas: (a) *Prepayment features with negative compensation.* The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) *Modification of financial liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition.

Financial assets 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.

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

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

The Group's derivative assets are classified under this category (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 as financial assets at FVPL.

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

Cash includes cash in banks and on hand 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 are included under this category (Notes 7, 8, 15, 27, 32 and 33).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the statements of changes in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are measured at cost less impairment in value, if any.

The Group's investments in equity securities included under "Investments" account in the consolidated statements of financial position are classified under this category (Note 11).

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 measured 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 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 measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses and long-term debt are included under this category (Notes 16, 17, 27, 32 and 33).

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, 2017 and 2016.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group assesses, at the reporting date, whether 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 financial 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. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

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

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

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

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the statements of changes in equity, is transferred from other comprehensive income to profit or loss. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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 a liability if it provides for a contractual obligation to:

- deliver cash or another financial assets to another entity;
- exchange financial asset 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 method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Offsetting Financial Instruments

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

Inventories

Finished goods, goods in process, and materials and supplies are measured at the lower of cost and net realizable value.

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

Finished goods and goods in process	-	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; and
Materials and supplies	-	at cost, using the moving-average method.

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

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

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

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Containers (i.e., Returnable Bottles and Shells). These are measured at deposit value less impairment, if any. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers" under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling 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 "Selling 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 profit or loss.

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 profit or loss. 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 profit or loss. 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 profit or loss.

- *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.

- *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is measured at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

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.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Property, Plant and Equipment

Property, plant and equipment, except for land, are measured 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 measured 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
Transportation equipment	3 - 7
Tools and other equipment	2 - 10
Office equipment, furniture and fixtures	2 - 20
Machinery and equipment	2 - 50
Buildings and improvements	5 - 50
Leasehold improvements	3 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method 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 profit or loss in the period of retirement and disposal.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is measured at cost less any impairment in value.

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 - 50
Buildings and improvements	5 - 50

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are measured 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 profit or loss 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 profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Computer software and licenses	2 - 10
Land use rights	42 - 50 or term of the lease, whichever is shorter

The Group assessed the useful lives of trademarks, some licenses and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Trademarks, licenses and brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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 profit or loss, when the asset is derecognized.

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investment property, deferred containers and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Trademarks, licenses and brand names 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 of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs directly attributable to the disposal of the asset. 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 profit or loss 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 profit or loss. 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 the liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or the liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or the 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 the liability, either directly or indirectly; and
- Level 3: inputs for the asset or the 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 the 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 are recognized as a deduction from equity, net of any tax effects.

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. Retained earnings may be classified as unappropriated retained earnings and appropriated retained earnings. 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 measured 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 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.

Interest Income

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

Rent Income

Revenue from operating lease is recognized on a straight-line basis over the term of the lease.

Others

Revenue is recognized when earned.

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

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is charged to operations by the Group.

ESPP is measured by reference to the market price at the time of the grant less subscription price. 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 SMC'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 agreement, 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.

Finance Lease

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset and finance lease liability is measured at an amount equal to the lower of its fair value and present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for at cost less accumulated depreciation and impairment loss, if any. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Capitalized leased assets are depreciable over the shorter of the lease term and useful life in accordance with the relevant depreciation policy for PPE and intangible assets.

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 profit or loss 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 and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is annually reviewed for impairment when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 majority of its subsidiaries 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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an 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 profit or loss.

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 profit or loss 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 profit or loss. 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 profit or loss, 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 "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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 "Translation reserve" account in the consolidated statements of changes in equity.

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.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method 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 a 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, 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 a 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, 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 deferred tax 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 profit or loss 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, and they intend to settle current tax liabilities and current tax assets on a net basis or their tax assets and tax liabilities will be realized simultaneously.

Final Tax. Final tax represents tax on interest income derived from bank deposits and short-term investments. Final tax is recognized in profit or loss in the same period when the related interest income is recognized.

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.

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 Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effects of all dilutive common shares.

Operating Segments

The Group's operating segments are organized and managed separately according to geographical location, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (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 and between geographical segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

Judgments, estimates and assumptions 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, estimates and assumptions are revised and in any future period affected.

Judgments

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

Evaluating Control over its Investee. Determining whether the Company has control in an investee requires significant judgment. Although the Company owns less than 50% of the voting rights of BPI, management has determined that the Company controls this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee.

The Company receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Company controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group has 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 properties leased from third parties are retained by the lessors.

Rent income recognized as part of other income amounted to P153, P130 and P85 in 2017, 2016 and 2015, respectively (Notes 25 and 28).

Rent expense charged to profit or loss amounted to P735, P670 and P585 in 2017, 2016 and 2015, respectively (Notes 20, 21 and 28).

Assessment of Intangible Assets with Indefinite Useful Life. The Group has assessed that the intangible assets have an indefinite useful life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group (Note 14).

Contingencies. The Group is currently involved in pending claims for tax refund and tax cases 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 tax cases 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. For the year ended December 31, 2016, the Group recognized a provision for possible tax assessment (Note 16 and 34). No additional provision for possible tax assessment was recognized by the Group for the year ended December 31, 2017.

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.

Impairment of Trademarks, Licenses and Brand Names with Indefinite Useful Lives. The Group determines whether trademarks, licenses and brand names are impaired at least annually. This requires the estimation of value in use of the trademarks, licenses and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks, licenses and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The combined carrying amount of trademarks, licenses and brand names with indefinite useful lives amounted to P35,585 and P35,395 as of December 31, 2017 and 2016, respectively (Note 14).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, investment property, deferred containers and intangible assets with finite useful lives 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 of property, plant and equipment and intangible assets with finite useful lives, including cumulative translation adjustments, amounted to P12,006 and P10,964 as of December 31, 2017 and 2016, respectively (Notes 12 and 14).

The combined carrying amount of property, plant and equipment, investment property, deferred containers and intangible assets with finite useful lives amounted to P33,187 and P31,261 as of December 31, 2017 and 2016, respectively (Notes 12, 13, 14 and 15).

5. Acquisition of Business and Investments in Shares of Stocks of Subsidiaries

Acquisition of Business

The Company acquired the assets of Ginebra San Miguel Inc. (GSMI) used in its non-alcoholic beverage business (NAB Business) under a deed of sale for the property and equipment used in the NAB Business (NAB PPE) executed on April 1, 2015 (as amended on April 30, 2015) and a deed of sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials used in the NAB Business executed on April 30, 2015. The purchase price for the GSMI assets is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties.

The acquisition of GSMI's assets used in its NAB Business qualifies as an acquisition of a business because the Company acquired tangible assets (i.e., the NAB PPE) and processes (i.e., the Company entered into production arrangements with the same service providers contracted by GSMI for its NAB Business prior to its sale of the NAB Business assets). The acquired NAB Business assets of GSMI with the production agreements, provided the Company with the inputs and processes which enabled the Company to generate returns from the NAB Business.

The acquisition of NAB assets of GSMI will expand the Company's business in the non-alcoholic beverage category in line with its multi-beverage strategy. The acquisition is expected to further strengthen the Company's potential as it taps new sources of growth in the beverage industry while fortifying leadership in the beer business, thereby ensuring superior long-term value to the Company's stakeholders.

Consideration transferred and identifiable assets acquired

The following table summarizes the acquisition date fair value of the consideration transferred and the recognized amounts of assets assumed at acquisition date.

Consideration transferred	
Cash	P446
Identifiable assets acquired	
Inventories	241
Property and equipment	205
	446
Goodwill (Bargain Purchase Gain)	P -

There was no gain on bargain purchase nor goodwill arising from the acquisition as the consideration transferred is equal to the fair value of the identifiable assets.

Acquisition-related Costs

The Company incurred acquisition-related costs amounting to P23 in respect of the acquisition of the GSMI assets. These include costs incurred for the consent solicitation of the Company's bondholders on the Negative Covenant Amendment (as defined in Note 17), and have been included in 'Interest expense and other financing charges' account in the consolidated statements of income.

Investments in Shares of Stocks of Subsidiaries/Non-controlling Interest

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2017						December 31, 2016					
	BPI	SMBHK	PTD	SMBTL	SMHTL	BPI	SMBHK	PTD	SMBTL	SMHTL	BPI	SMBTL
Non-controlling percentage on profit or loss	7%	-	-	-	-	7%	-	-	-	-	-	-
Non-controlling ownership interest percentage	60%	34%	42%	51%	51%	60%	34%	42%	51%	51%	51%	51%
Non-controlling voting interest percentage	60%	34%	42%	9%	9%	60%	34%	42%	9%	9%	9%	9%
Carrying amount of non-controlling interests	P482	P1,279	P1,755	(P1,117)	P18	P483	P1,224	P1,555	(P996)	P17		
Current assets	P276	P2,101	P4,113	P2,381	P6	P337	P2,046	P3,552	P1,883	P5		
Noncurrent assets	1,811	3,640	840	2,223	190	1,812	3,709	861	2,115	173		
Current liabilities	(47)	(877)	(536)	(2,380)	-	(45)	(820)	(506)	(1,940)	-		
Noncurrent liabilities	-	(1,128)	(207)	(4,415)	(160)	-	(1,357)	(176)	(4,011)	(145)		
Net assets (liabilities)	P2,040	P3,736	P4,210	(P2,191)	P36	P2,104	P3,578	P3,731	(P1,953)	P33		
Dividends paid to non-controlling interests	P12	P -	P225	P -	P -	P115	P -	P149	P -	P -		
Net income (loss) attributable to non-controlling interests	P11	P34	P444	(P19)	P -	P11	P14	P373	P4	P -		
Other comprehensive income (loss) attributable to non-controlling interests	P -	P16	(P21)	(P99)	P2	P -	P13	P36	(P7)	P -		
Sales	P218	P3,747	P5,366	P1,875	P -	P218	P3,323	P5,391	P1,647	P -		
Net income (loss)	P163	P98	P1,066	(P37)	P -	P171	P41	P896	P8	P -		
Other comprehensive income (loss)	-	46	(51)	(194)	3	-	37	86	(13)	-		
Total comprehensive income (loss)	P163	P144	P1,015	(P231)	P3	P171	P78	P982	(P5)	P -		
Cash flows provided by operating activities	P169	P119	P492	P255	P -	P198	P60	P493	P133	P -		
Cash flows provided by (used in) investing activities	8	(97)	15	(113)	-	13	(42)	(87)	(111)	-		
Cash flows provided by (used in) financing activities	(227)	3	(221)	(9)	-	(115)	2	(153)	7	-		
Effects of exchange rate changes on cash and cash equivalents	-	(3)	(8)	14	-	-	-	20	1	-		
Net increase (decrease) in cash and cash equivalents	(P50)	P22	P278	P147	P -	P96	P20	P273	P30	P -		

6. 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 produced. The operating businesses are organized and managed separately according to geographical location, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are domestic and international operations.

Domestic operations produce and market fermented, malt-based and non-alcoholic beverages within the Philippines and distribute beer products to some export markets.

International operations produce and market fermented, malt-based and non-alcoholic beverages in several foreign markets.

Segment Assets and Segment Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories and property, plant and equipment, net of allowances, accumulated depreciation and amortization and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses, wages and accrued liabilities. Segment assets and segment liabilities do not include deferred taxes.

Inter-segment Transactions

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

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.

Financial information about the operating segments follow:

	For the Year Ended December 31, 2017			
	Domestic	International	Eliminations	Total
Sales				
External sales	P100,198	P13,057	P -	P113,255
Inter-segment sales	36	-	(36)	-
Total Sales	P100,234	P13,057	(P36)	P113,255
Result				
Segment result	P29,717	P1,444	P -	P31,161
Interest expense and other financing charges	(2,283)	-	-	(2,283)
Interest income				534
Impairment loss on noncurrent assets				(534)
Other income - net				210
Income tax expense				(8,377)
Net Income				P20,711
Attributable to:				
Equity holders of the Company				P20,178
Non-controlling interests				533
Net Income				P20,711

	As of and For the Year Ended December 31, 2017			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	P67,292	P21,008	(P13,980)	P74,320
Trademarks and brand names	32,000	1,573	-	33,573
Other assets				73
Deferred tax assets				1,317
Consolidated Total Assets				P109,283
Segment liabilities	P7,030	P2,568	(P39)	P9,559
Long-term debt - net of debt issue costs	34,665	-	-	34,665
Income and other taxes payable				3,685
Accrued interests and dividends payable				564
Deferred tax liabilities				26
Consolidated Total Liabilities				P48,499
Capital expenditures	P1,539	P208	P -	P1,747
Depreciation and amortization of property, plant and equipment	935	333	-	1,268
Noncash items other than depreciation and amortization of property, plant and equipment	2,203	52	-	2,255
	For the Year Ended December 31, 2016			
	Domestic	International	Eliminations	Total
Sales				
External sales	P84,897	P12,263	P -	P97,160
Inter-segment sales	42	-	(42)	-
Total Sales	P84,939	P12,263	(P42)	P97,160
Result				
Segment result	P26,082	P1,106	P -	P27,188
Interest expense and other financing charges	(2,684)	-	-	(2,684)
Interest income				361
Other income - net				154
Income tax expense				(7,361)
Net Income				P17,658
Attributable to:				
Equity holders of the Company				P17,217
Non-controlling interests				441
Net Income				P17,658

	As of and For the Year Ended December 31, 2016			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	P60,720	P19,812	(P13,998)	P66,534
Trademarks and brand names	32,000	1,566	-	33,566
Other assets				56
Deferred tax assets				1,435
Consolidated Total Assets				P101,591
Segment liabilities	P6,555	P2,564	(P57)	P9,062
Long-term debt including current maturities - net of debt issue costs	37,617	-	-	37,617
Income and other taxes payable				3,435
Accrued interests and dividends payable				606
Deferred tax liabilities				113
Consolidated Total Liabilities				P50,833
Capital expenditures	P1,041	P177	P -	P1,218
Depreciation and amortization of property, plant and equipment	1,004	321	-	1,325
Noncash items other than depreciation and amortization of property, plant and equipment	2,576	312	-	2,888
For the Year Ended December 31, 2015				
	Domestic	International	Eliminations	Total
Sales				
External sales	P70,877	P11,497	P -	P82,374
Inter-segment sales	48	-	(48)	-
Total Sales	P70,925	P11,497	(P48)	P82,374
Result				
Segment result	P22,055	P576	P -	P22,631
Interest expense and other financing charges	(2,597)	-	-	(2,597)
Interest income				261
Impairment loss on noncurrent assets				(1,011)
Other income - net				55
Income tax expense				(5,821)
Net Income				P13,518
Attributable to:				
Equity holders of the Company				P13,251
Non-controlling interests				267
Net Income				P13,518

	As of and For the Year Ended December 31, 2015			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	P54,126	P17,917	(P14,078)	P57,965
Trademarks and brand names	32,000	1,482	-	33,482
Other assets				70
Deferred tax assets				1,574
Consolidated Total Assets				P93,091
Segment liabilities	P7,525	P2,470	(P53)	P9,942
Long-term debt - net of debt issue costs	37,566	-	-	37,566
Income and other taxes payable				2,874
Accrued interests and dividends payable				604
Deferred tax liabilities				114
Consolidated Total Liabilities				P51,100
Capital expenditures	P909	P117	P -	P1,026
Depreciation and amortization of property, plant and equipment	921	368	-	1,289
Noncash items other than depreciation and amortization of property, plant and equipment	1,639	-	-	1,639

7. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	2017	2016
Cash in banks and on hand		P3,673	P2,990
Short-term investments		24,624	19,025
	32, 33	P28,297	P22,015

Cash in banks earn interest at bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the short-term investment rates.

8. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2017	2016
Trade:			
Amounts owed by third parties		P4,928	P4,924
Amounts owed by related parties	27	9	6
Non-trade:			
Amounts owed by third parties		376	593
Amounts owed by related parties	27	100	94
		5,413	5,617
Less allowance for impairment losses		418	559
	32, 33	P4,995	P5,058

Trade receivables are non-interest bearing and are generally on a 7 to 30-day credit term.

Non-trade receivables include receivables from employees, insurance and freight claims, interest and other receivables.

The movements in the allowance for impairment losses are as follows:

	2017	2016
Balance at beginning of year	P559	P403
Impairment loss during the year	339	157
Write-off and reversal during the year	(481)	(8)
Currency translation adjustments	1	7
Balance at end of year	P418	P559

As of December 31, the aging of receivables is as follows:

2017	Amounts Owed by Third Parties	Amounts Owed by Related Parties	Total
Current	P4,343	P93	P4,436
Past due			
Less than 30 days	223	10	233
30 - 60 days	115	6	121
61 - 90 days	96	-	96
Over 90 days	527	-	527
	P5,304	P109	P5,413

2016	Amounts Owed by Third Parties	Amounts Owed by Related Parties	Total
Current	P4,469	P83	P4,552
Past due			
Less than 30 days	298	7	305
30 - 60 days	180	10	190
61 - 90 days	79	-	79
Over 90 days	491	-	491
	P5,517	P100	P5,617

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits. The Company has no right to sell or pledge the collaterals in the absence of default by the customers.

9. Inventories

This account consists of:

	2017	2016
At net realizable value:		
Finished goods and goods in process	P1,487	P2,066
Containers	1,480	1,832
Materials and supplies	1,065	1,016
	P4,032	P4,914

The cost of inventories as of December 31 are as follows:

	2017	2016
Finished goods and goods in process	P1,489	P2,072
Containers	1,892	2,047
Materials and supplies	1,074	1,051
	P4,455	P5,170

The write-down of inventories recognized as expense amounted to P413, P225 and P302 for the years ended December 31, 2017, 2016 and 2015, respectively (Note 21). Reversal of write-down of inventories amounted to P1 and nil for December 31, 2017 and 2016, respectively.

10. Prepaid Expenses and Other Current Assets

This account consists of:

	<i>Note</i>	2017	2016
Prepaid taxes and licenses		P1,208	P868
Prepaid supplies/materials		275	217
Prepaid insurance		47	108
Prepaid rent	<i>27</i>	22	21
Derivative assets	<i>32, 33</i>	10	1
Others		67	54
		P1,629	P1,269

Others include prepaid promotional expenses and other miscellaneous prepaid expenses.

11. InvestmentsAFS Financial Assets

The Group's AFS financial assets pertain to investments in shares of stock and club shares amounting to P41 as of December 31, 2017 and 2016 (Notes 32 and 33). In 2016, investment in shares of stock of PT San Miguel Indonesia Foods and Beverages with a carrying amount of P23 was disposed which resulted to a gain of P13 (Note 25).

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 33.

	Land	Machinery and Equipment	Buildings and Improvements	Transportation Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools and Other Equipment	CPIP	Total
Accumulated Impairment Losses									
January 1, 2016	P -	P8,172	P2,448	P9	P -	P40	P13	P -	P10,682
Additions	-	-	-	-	-	-	-	-	-
Disposals/reclassifications	-	6	(6)	-	-	-	-	-	-
Currency translation adjustments	-	74	(32)	-	-	1	-	-	43
December 31, 2016	-	8,252	2,410	9	-	41	13	-	10,725
Additions	-	407	127	-	-	-	-	-	534
Disposals/reclassifications	-	(21)	-	1	1	-	(2)	-	(21)
Currency translation adjustments	-	363	164	-	-	1	-	-	528
December 31, 2017	-	9,001	2,701	10	1	42	11	-	11,766
Carrying Amount									
December 31, 2016	P8,019	P5,280	P4,326	P178	P125	P84	P49	P518	P18,579
December 31, 2017	P8,117	P5,184	P4,139	P139	P104	P95	P52	P902	P18,732

Depreciation and amortization charged to operations amounted to P1,268, P1,325 and P1,289 in 2017, 2016 and 2015, respectively (Notes 20, 21 and 22). No interest was capitalized in 2017 and 2016.

Following the impairment testing of the Group, impairment losses recognized on property, plant and equipment related to its foreign operations amounted to P534, nil and P998 in 2017, 2016 and 2015, respectively (Note 26).

13. Investment Property

The movements in this account, including the effects of currency translation adjustments are as follows:

	<i>Note</i>	Land and Land Improvements	Buildings and Improvements	Total
Cost				
January 1, 2016		P1,378	P475	P1,853
Additions		-	-	-
Reclassifications		192	210	402
Currency translation adjustments		24	27	51
December 31, 2016		1,594	712	2,306
Additions		-	-	-
Reclassifications	14	(650)	-	(650)
Currency translation adjustments		(2)	(3)	(5)
December 31, 2017		942	709	1,651
Accumulated Depreciation and Amortization				
January 1, 2016		113	200	313
Additions		15	14	29
Reclassifications		49	89	138
Currency translation adjustments		7	12	19
December 31, 2016		184	315	499
Additions		-	14	14
Reclassifications	14	(183)	-	(183)
Currency translation adjustments		(1)	(1)	(2)
December 31, 2017		-	328	328
Carrying Amount				
December 31, 2016		P1,410	P397	P1,807
December 31, 2017		P942	P381	P1,323

No impairment loss was recognized in 2017, 2016 and 2015.

The fair value of investment property amounting to P2,167 and P3,513 as of December 31, 2017 and 2016, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property.

Rent income on the Group's investment property recognized as part of other income amounted to P145, P122 and P74 in 2017, 2016 and 2015, respectively (Notes 25).

Valuation Technique and Significant Unobservable Inputs

Domestic. The market value was determined using the Market (Comparison) Approach. The market approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance, and marketability.

The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

International. The valuation is determined using the Income Approach which considers the capitalization of net rent income receivable from existing tenancies and the reversionary value of the property after tenancies expire by reference to market sales transactions. The significant unobservable input in the fair value measurement is the discount rate, which ranged from 2.1% to 4.0% and 3.1% to 4.1% in 2017 and 2016, respectively.

14. Intangible Assets

The movements in this account are as follows:

	Trademarks and Brand Names	Licenses	Computer Software and Licenses	Land Use Rights	Total
Cost					
December 31, 2015	P33,739	P1,810	P123	P1,142	P36,814
Additions	-	-	19	-	19
Disposals/reclassifications	-	(91)	91	-	-
Currency translation adjustments	97	110	7	16	230
December 31, 2016	33,836	1,829	240	1,158	37,063
Additions	-	-	12	-	12
Disposals/reclassifications	-	-	(6)	650	644
Currency translation adjustments	7	184	1	45	237
December 31, 2017	33,843	2,013	247	1,853	37,956
Accumulated Amortization					
December 31, 2015	40	60	112	387	599
Additions	-	-	18	23	41
Disposals/reclassifications	-	(60)	60	-	-
Currency translation adjustments	2	-	7	4	13
December 31, 2016	42	-	197	414	653
Additions	-	-	17	40	57
Disposals/reclassifications	-	-	(6)	183	177
Currency translation adjustments	1	-	1	19	21
December 31, 2017	43	-	209	656	908
Accumulated Impairment Losses					
December 31, 2015	217	-	5	6	228
Additions	-	-	-	-	-
Currency translation adjustments	11	-	-	-	11
December 31, 2016	228	-	5	6	239
Additions	-	-	-	-	-
Currency translation adjustments	-	-	1	-	1
December 31, 2017	228	-	6	6	240
Carrying Amount					
December 31, 2016	P33,566	P1,829	P38	P738	P36,171
December 31, 2017	P33,572	P2,013	P32	P1,191	P36,808

Trademarks and brand names with indefinite useful lives amounted to P33,572 and P33,566 as of December 31, 2017 and 2016, respectively. Licenses with indefinite useful lives amounted to P2,013 and P1,829 as of December 31, 2017 and 2016, respectively.

The following are the main reasons or factors that played a significant role in determining that such assets have indefinite useful lives:

- Expected continuous cash flows from the asset;
- Stability of industry in which the assets operate; and
- Full control over the assets.

The aggregate cost of fully amortized trademarks and brand names amounted to P271 as of December 31, 2017 and 2016.

Trademarks and Brand Names

a. Domestic Operations

The recoverable amount of the trademarks and brand names has been determined 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 determined constant growth rate to arrive at its terminal value. The 2% growth rate used is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections is 9.0% in 2017 and 2016.

No impairment loss recognized in the value of trademarks and brand names in 2017, 2016 and 2015.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of trademarks and brand names is based would not cause its carrying amount to exceed its recoverable amount.

b. International Operations

The recoverable amount of the trademarks and brand names has been determined 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 determined constant growth rate to arrive at its terminal value. The 2% to 3% growth rates used are consistent with the long-term average growth rates for the industry. The discount rates applied to after tax cash flow projections range from 6.4% to 18.8% in 2017 and 2016.

Management assessed that there was no impairment loss in the value of trademarks and brand names for the years ended December 31, 2017 and 2016. In 2015, the Group recognized impairment loss on trademarks and brand names amounting to P13 (Note 26).

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

Discount Rate. 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 investment proposals.

Growth Rate. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

15. Other Noncurrent Assets

This account consists of:

	<i>Note</i>	2017	2016
Deferred containers - net:			
Bottles		P9,429	P7,969
Shells		2,480	2,130
		11,909	10,099
Others	27, 29, 32, 33	200	203
		P12,109	P10,302

Others include unamortized cost of pallets, kegs and CO2 cylinders, defined benefit retirement asset, long-term receivable, and other noncurrent assets.

The movements in the deferred containers are as follows:

	<i>Note</i>	2017	2016
Gross Carrying Amount			
Balance at beginning of year		P23,880	P20,254
Additions		4,790	4,573
Disposals/reclassifications		(972)	(1,005)
Currency translation adjustments		33	58
Balance at end of year		27,731	23,880
Accumulated Amortization and Impairment Losses			
Balance at beginning of year		13,781	11,188
Amortization	22	2,243	2,596
Disposals/reclassifications		(224)	(40)
Currency translation adjustments		22	37
Balance at end of year		15,822	13,781
		P11,909	P10,099

16. Accounts Payable and Accrued Expenses

This account consists of:

	<i>Note</i>	2017	2016
Trade:			
Amounts owed to third parties		P3,912	P4,028
Amounts owed to related parties	27	2,376	1,870
Non-trade:			
Derivative liabilities	32, 33	66	64
Amounts owed to related parties	27	9	11
Accruals:			
Payroll		875	802
Interests	17	547	591
Advertising and promotions		422	169
Taxes		266	266
Materials and supplies		105	86
Capital expenditure		78	54
Contracted services		65	56
Utilities		23	25
Others		288	76
		P9,032	P8,098

Accounts payable and accrued expenses are unsecured and non-interest bearing.

Others include accruals for repairs and maintenance, freight, trucking and handling, dividends payable and other payables.

17. Long-term Debt

This account consists of:

	<i>Note</i>	2017	2016
Unsecured peso-denominated term notes:			
Series C bonds, fixed interest rate of 10.50%		P2,804	P2,800
Series D bonds, fixed interest rate of 6.05%		-	2,998
Series E bonds, fixed interest rate of 5.93%		9,978	9,962
Series F bonds, fixed interest rate of 6.60%		6,964	6,957
Series G bonds, fixed interest rate of 5.50%		12,398	12,381
Series H bonds, fixed interest rate of 6.00%		2,521	2,519
	<i>32, 33</i>	P34,665	P37,617

Reconciliation of the opening and closing balance of long-term debt is as follows:

	Long-term Debt	Accrued Interests	Total
Opening balance	P37,617	P591	P38,208
Interest expense and other financing charges	48	2,235	2,283
Payments of:			
Principal	(3,000)	-	(3,000)
Interest	-	(2,279)	(2,279)
Closing balance	P34,665	P547	P35,212

The amount represents unsecured long-term debt incurred by the Company: (a) to finance its acquisition of SMC's interest in IBI and BPI; (b) to support the redemption of the Series A bonds which matured on April 3, 2012; (c) to support the partial prepayment of the US\$300 unsecured loan facility agreement (which was paid in full in 2013); and (d) to support the redemption of the Series B bonds which matured on April 4, 2014.

The Company's unsecured long-term notes comprise the Philippine peso-denominated fixed rate bonds in the aggregate principal amount of: (a) P2,810 pertaining to the aggregate principal amount of the Series C bonds which remain outstanding of the P38,800 bonds (P38,800 Bonds) which were issued on April 3, 2009 (P38,800 Bonds Issue Date); (b) P17,000 pertaining to the aggregate principal amount of Series E and F bonds which remain outstanding of the P20,000 bonds (P20,000 Bonds) which were issued on April 2, 2012 (P20,000 Bonds Issue Date); and (c) P15,000 (P15,000 Bonds) which were issued on April 2, 2014 (P15,000 Bonds Issue Date).

The P38,800 Bonds, which originally consisted of the Series A bonds (with a term of three years from the P38,800 Bonds Issue Date), the Series B bonds (with a term of five years and one day from the P38,800 Bonds Issue Date), and the Series C bonds (with a term of ten years from the P38,800 Bonds Issue Date), were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2009. The P38,800 Bonds were listed on the PDEX on November 17, 2009. The Series A bonds matured on April 3, 2012 and were accordingly redeemed by the Company on April 3, 2012. Part of the proceeds of the Company's P20,000 Bonds were used to pay such maturity. The Series B bonds with an aggregate principal amount of P22,400 matured on April 4, 2014 and were accordingly redeemed by the Company on April 4, 2014. The proceeds of the Company's P15,000 Bonds were used to partially pay such maturity. Only the Series C bonds remain outstanding of the P38,800 Bonds. Unamortized debt issue costs related to the Series C bonds amounted to P6 and P10 as of December 31, 2017 and 2016, respectively.

The P20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the P20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the P20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the P20,000 Bonds Issue Date). The P20,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 16, 2012. The Series E bonds and Series F bonds were listed on the PDEX for trading on April 2, 2012, while the Series D bonds were listed on the PDEX for trading on October 3, 2012. The Series D bonds with an aggregate principal amount of P3,000 matured on April 3, 2017 and was accordingly redeemed by the Company on the said date. Unamortized debt issue costs related to the Series E and F bonds amounted to P58 and P83 as of December 31, 2017 and 2016, respectively.

The P15,000 Bonds consist of the Series G bonds (with a term of seven years from the P15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the P15,000 Bonds Issue Date). The P15,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEX for trading on April 2, 2014. Unamortized debt issue costs related to the P15,000 Bonds amounted to P81 and P100 as of December 31, 2017 and 2016, respectively.

Interest on the Series C bonds are paid semi-annually, every April 3 and October 3 of each year. Interest on the P20,000 Bonds are paid semi-annually every April 2 and October 2 of each year (each, a P20,000 Bonds Interest Payment Date), save for the first interest payment of the Series D bonds which was made on October 3, 2012. The Company may (but shall not be obligated to) redeem all (and not a part only) of the outstanding P20,000 Bonds on the day after the 10th P20,000 Bonds Interest Payment Date for the Series E bonds, and the 14th P20,000 Bonds Interest Payment Date for the Series F Bonds. Interest on the P15,000 Bonds are paid every April 2 and October 2 of each year (each, a P15,000 Bonds Interest Payment Date). The Company may also (but shall likewise not be obligated to) redeem all (and not a part only) of the outstanding P15,000 Bonds on the 11th P15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th P15,000 Bonds Interest Payment Dates for the Series H bonds.

On December 5 and 16, 2014, the BOD (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a solicitation process for the consents of the majority of the holders of record as of December 15, 2014 of the Company's Series C bonds, Series D bonds, Series E bonds and Series F bonds (Series CDEF Bonds Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to align the same with the negative covenants of the trust agreement covering the Series G bonds and Series H bonds (Series GH Bonds Trust Agreement), and allow the Company to engage, or amend its Articles of Incorporation to engage, in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). The Company obtained the consents of Series CDEF Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C bonds and 81.05% of the combined outstanding aggregate principal amount of the Series D bonds, Series E bonds and Series F bonds, for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to reflect the Negative Covenant Amendment were executed by the Company and the respective trustees of the said bonds on February 2, 2015.

In November 2017, SMC announced its intention to undertake a corporate reorganization of its business interests which will involve the grouping of all its food and beverage businesses under one group (San Miguel Pure Foods Company Inc. which will later be renamed to San Miguel Food and Beverage, Inc. (SMFBI), subject to applicable approvals). The corporate reorganization is expected to result in synergies in the food and beverage business units of the San Miguel group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel group through SMFBI. The completion of the corporate reorganization is subject to certain regulatory approvals as of March 9, 2018.

To allow the Company to remain under the effective control of SMC through SMFBI in the implementation of the said corporate reorganization of the food and beverage business of SMC (and thus ensure that the trust agreements covering the Company's outstanding bonds remain consistent with their original intended purpose), the BOD of Company, in its meeting on November 3, 2017, approved the conduct of a solicitation process for the consents of the majority of the holders of record as of November 8, 2017 of the Company's Series C bonds, Series E bonds and Series F bonds (Series CEF Bonds Record Bondholders) to align the change in control default provision under the trust agreements covering the Series C bonds, Series E bonds and Series F bonds with the change in control default provision under the Series GH Bonds Trust Agreement (Change in Control Amendment). Under the Series GH Bonds Trust Agreement, a change in control of the Company occurs when SMC ceases to have the ability to consolidate the Company as a subsidiary in its consolidated financial statements in accordance with the accounting principles and standards applicable to SMC then in effect.

The Company obtained the consents of the Series CEF Record Bondholders representing 88.28% of the outstanding aggregate principal amount of the Series C bonds, and 78.1803% of the combined outstanding aggregate principal amount of the Series E bonds and Series F bonds, for the Change in Control Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series E bonds and Series F bonds to reflect the Change in Control Amendment were executed by the Company and the respective trustees of the said bonds on December 19, 2017.

As of December 31, 2017 and 2016, the Company was in compliance with its debt covenants.

The movements in debt issue costs are as follows:

	<i>Note</i>	2017	2016
Balance at beginning of year		P193	P244
Amortization	24	(48)	(51)
Balance at end of year		P145	P193

Repayment Schedule

As of December 31, 2017, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2019	P12,810	P28	P12,782
2021	12,462	64	12,398
2022	7,000	36	6,964
2024	2,538	17	2,521
	P34,810	P145	P34,665

Interest expense recognized in the consolidated statements of income amounted to P2,235, P2,633 and P2,526 in 2017, 2016 and 2015, respectively (Note 24).

Valuation Technique

The market value was determined using the market comparison technique. The fair values are based on PDEX. The bonds are traded in an active market and the quotes reflect the actual transactions in similar instruments.

The fair value of long-term debt amounting to P36,281 and P40,091 as of December 31, 2017 and 2016, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 33).

18. Income Taxes

Deferred tax assets and deferred tax liabilities arise from the following:

	2017	2016
Items recognized in profit or loss		
Net defined benefit retirement liability	P155	P199
Allowance for inventory losses	148	114
Allowance for impairment losses on trade and other receivables	102	146
Unrealized losses on derivatives - net	46	46
Unrealized foreign exchange gains - net	-	(1)
Others	(21)	(104)
Item recognized directly in other comprehensive income		
Equity reserve for retirement plan	861	922
	P1,291	P1,322

The movements in deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2017				
	Balance at Beginning of the Year - net	Recognized Directly in Profit or Loss	Recognized Directly in Other Comprehensive Income	Balance at End of the Year - net	Deferred Tax Assets
Equity reserve for retirement plan	P922	P -	(P61)	P861	P872
Net defined benefit retirement liability	199	(44)	-	155	138
Allowance for inventory losses	114	34	-	148	148
Allowance for impairment losses on receivables	146	(44)	-	102	102
Unrealized losses on derivatives - net	46	-	-	46	46
Unrealized foreign exchange gains - net	(1)	1	-	-	-
Others	(104)	83	-	(21)	11
Net assets	P1,322	P30	(P61)	P1,291	P1,317
					(P26)

	December 31, 2016				
	Balance at Beginning of the Year - net	Recognized Directly in Profit or Loss	Recognized Directly in Other Comprehensive Income	Balance at End of the Year - net	Deferred Tax Assets
Equity reserve for retirement plan	P1,094	P -	(P172)	P922	P922
Net defined benefit retirement liability	201	(2)	-	199	180
Allowance for impairment losses on receivables	103	43	-	146	146
Allowance for inventory losses	212	(98)	-	114	114
Unrealized losses on derivatives - net	35	11	-	46	46
Unrealized foreign exchange gains - net	(1)	-	-	(1)	(1)
Others	(184)	80	-	(104)	28
Net assets	P1,460	P34	(P172)	P1,322	P1,435
					(P113)

The components of income tax expense are shown below:

	2017	2016	2015
Current	P8,260	P7,297	P5,893
Final	147	98	81
Deferred	(30)	(34)	(153)
	P8,377	P7,361	P5,821

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

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Income subjected to final tax	(0.55)	(0.43)	(0.40)
Others	(0.65)	(0.15)	0.50
Effective income tax rate	28.80%	29.42%	30.10%

19. Equity

Capital Stock

Pursuant to the registration statement rendered effective, and permit to sell issued, by the SEC on April 28, 2008, 15,488,309,960 common shares of the Company were registered and may be offered for sale at an offer price of P8.00 per common share.

The Company's common shares were listed on the PSE on May 12, 2008. Following the SEC's denial of all requests made (including the request of the Company) for the extension of the grace period requirement for listed companies to comply with the PSE's minimum public ownership requirement and the PSE's imposition of a trading suspension on the common shares of the Company, effective January 1, 2013 as a result of such denial, the BOD of the Company approved on February 15, 2013, the voluntary delisting of the Company's common shares from the PSE. A petition for the same was thereafter filed by SMB with the PSE on February 20, 2013.

To comply with the PSE requirements on voluntary delisting, the Company undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of P20.00 per common share. The tender offer commenced on March 4, 2013 and ended on April 3, 2013. A total of 51,425,799 common shares were tendered and accepted by the Company, equivalent to 0.3337% of its then total issued and outstanding shares, and were accordingly recorded as treasury shares.

Thereafter, the PSE approved the petition for the voluntary delisting of the Company in its April 24, 2013 board meeting and has authorized the delisting of the Company's common shares from its official registry effective May 15, 2013.

As of December 31, 2017 and 2016, the Company has a total of 15,359,053,161 issued and outstanding common shares (excluding the 51,425,799 common shares tendered and accepted by the Company during the tender offer and recorded as treasury shares) and 1,030 and 1,079 shareholders of record, respectively. As of December 31, 2017 and 2016, the Certificate Authorizing Registration (CAR) for 48,777,899 common shares and 48,480,499 common shares, respectively, out of the 51,425,799 common shares tendered and accepted during the tender offer (equivalent to 94.85% and 94.27%, respectively, of the total tendered and accepted) were secured and presented to the Company. The CARs for the remaining common shares tendered and accepted during the tender offer have yet to be issued by the Bureau of Internal Revenue (BIR) as of December 31, 2017.

Retained Earnings

The Group's unappropriated retained earnings include the accumulated earnings in subsidiaries not available for declaration as dividends until declared by the respective investees.

The Company's BOD declared cash dividends as follows:

December 31, 2017

Date of Declaration	Stockholders of Record	Date Payable	Dividend per Share	Amount
March 13, 2017	April 7, 2017	April 19, 2017	P0.18	P2,765
May 5, 2017	June 2, 2017	June 14, 2017	0.18	2,765
August 4, 2017	September 1, 2017	September 13, 2017	0.18	2,765
November 3, 2017	November 24, 2017	December 4, 2017	0.18	2,765
				P11,060

December 31, 2016

Date of Declaration	Stockholders of Record	Date Payable	Dividend per Share	Amount
March 11, 2016	April 8, 2016	April 20, 2016	P0.16	P2,458
May 6, 2016	June 3, 2016	June 15, 2016	0.16	2,458
August 5, 2016	September 2, 2016	September 14, 2016	0.17	2,612
November 3, 2016	November 25, 2016	December 5, 2016	0.17	2,611
				P10,139

On March 9, 2018, the BOD of the Company declared cash dividends at P0.20 per share to all stockholders of record as of April 6, 2018 to be paid on April 18, 2018.

The Company appropriated an additional P12,810 of retained earnings, which the BOD of the Company approved on December 8, 2017, for the redemption of the Company's Series C and E bonds which will mature in April 2019. Of the P5,200 appropriations in 2016, the P3,000 allotted for the redemption of the Series D bonds was reversed upon redemption of the bonds in April 2017. The remaining P2,200 appropriation is for the various ongoing projects namely, the additional packaging line in the Company's production facility in Sta. Rosa, Laguna, the new brewery in Tagaloan, Misamis Oriental and additional non-alcoholic beverage facilities in the Company's production plants in Valenzuela City and Davao City.

The Company makes regular declaration of cash dividends out of its unrestricted retained earnings in accordance with its dividend policy and as part of its capital management.

20. Cost of Sales

This account consists of:

	<i>Note</i>	2017	2016	2015
Taxes and licenses		P45,726	P37,102	P30,323
Inventories		11,304	10,176	10,013
Communications, light, fuel and water		2,416	1,778	1,631
Personnel	23	1,589	1,443	1,311
Depreciation and amortization	22	1,012	990	1,007
Repairs and maintenance		527	472	359
Tolling fee		132	151	101
Rent	4, 28	30	30	25
Others		238	167	41
		P62,974	P52,309	P44,811

Taxes and licenses include excise, real property and business taxes.

Others include insurance, contracted services, research and development and various items of manufacturing overhead which are individually immaterial.

21. Selling and Administrative Expenses

This account consists of:

	2017	2016	2015
Selling	P10,042	P8,668	P7,451
Administrative	9,078	8,995	7,481
	P19,120	P17,663	P14,932

Selling expenses consist of:

	<i>Note</i>	2017	2016	2015
Advertising and promotion		P4,108	P3,056	P2,820
Freight, trucking and handling		2,735	2,401	2,150
Personnel	23	1,868	1,718	1,610
Rent	4, 28	562	481	438
Taxes and licenses		235	199	165
Travel and transportation		141	130	126
Repairs and maintenance		109	89	83
Communications, light, fuel and water		86	80	84
Depreciation and amortization	22	79	90	98
Provision for (reversal of) impairment losses on receivables		(82)	157	(380)
Others		201	267	257
		P10,042	P8,668	P7,451

Others include insurance, contracted services, office supplies and various items which are individually immaterial.

Administrative expenses consist of:

	<i>Note</i>	2017	2016	2015
Personnel	23	P3,203	P3,100	P2,840
Depreciation and amortization	22	2,521	2,939	1,858
Contracted services		758	571	466
Provision for inventory losses	9	413	225	302
Management fees	27	328	349	585
Breakages		282	216	167
Repairs and maintenance		243	261	195
Communications, light, fuel and water		228	235	162
Professional fees		156	189	114
Rent	4, 28	143	159	122
Travel and transportation		113	125	122
Taxes and licenses		86	117	150
Research and development		81	55	42
Shipping expenses		47	39	25
Others		476	415	331
		P9,078	P8,995	P7,481

Others include insurance, donations, office supplies and various items which are individually immaterial.

22. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	2017	2016	2015
Cost of sales:				
Property, plant and equipment	12, 20	P1,012	P990	P1,007
Selling and administrative expenses:				
Deferred containers	15	2,243	2,596	1,588
Property, plant and equipment	12, 21	256	335	282
Others	13, 14	101	98	86
	21	2,600	3,029	1,956
		P3,612	P4,019	P2,963

Others include amortization of investment property, computer software and licenses, land use rights, pallets, kegs and CO2 cylinders.

23. Personnel Expense

This account consists of:

	<i>Note</i>	2017	2016	2015
Salaries and wages		P4,019	P3,808	P3,457
Other employee benefits		2,043	1,855	1,714
Retirement costs	29	598	598	590
		P6,660	P6,261	P5,761

Personnel expense is distributed as follows:

	<i>Note</i>	2017	2016	2015
Cost of sales	20	P1,589	P1,443	P1,311
Selling expenses	21	1,868	1,718	1,610
Administrative expenses	21	3,203	3,100	2,840
		P6,660	P6,261	P5,761

24. Interest Expense and Other Financing Charges

This account consists of:

	<i>Note</i>	2017	2016	2015
Interest expense	17	P2,235	P2,633	P2,526
Amortization of debt issue costs	17	48	51	48
Other financing charges	4	-	-	23
		P2,283	P2,684	P2,597

25. Other Income - net

This account consists of:

	<i>Note</i>	2017	2016	2015
Rent income	4, 13, 28	P153	P130	P85
Foreign exchange gains (losses) - net	32	51	18	(34)
Gain (loss) on sale of:				
Investments	11	1	13	-
Property and equipment		(4)	8	9
Loss on derivatives - net	33	(9)	(62)	(49)
Others		18	47	44
		P210	P154	P55

Others include royalty income, dividend income, bank charges and other various items which are individually immaterial.

26. Impairment Loss on Noncurrent Assets

In 2017 and 2015, the Group incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecast sales. These factors, among others, are indications that noncurrent assets of the Group's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired.

The Group assessed that the recoverable amount of SMBB, the cash-generating unit to which these assets belong, is less than the carrying amount of the assets.

Accordingly, impairment loss recognized to reduce carrying amount to recoverable amount are as follows:

	2017	2016	2015
Property, plant and equipment	P534	P -	P998
Intangible assets	-	-	13
	P534	P -	P1,011

As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of SMBB has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 17 years, which is the remaining estimated useful life of the assets. Cash flows beyond ten-year period are kept constant.

Key assumptions used for value in use calculation are as follows:

	2017	2016	2015
Sales volume growth rate	2% - 20%	4% - 20%	4% - 20%
Pre-tax discount rate	8.86%	8.86%	8.86%

Management determined the growth rate and gross contribution rate based on past experiences and future plans and expected market trends.

27. Related Party Disclosures

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

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

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent	2017	P47	P1,107	P20	P256	On demand;	Unsecured; no impairment
	2016	15	1,350	16	186	non-interest bearing	
Shareholder	2017	-	-	3	-	On demand;	Unsecured; no impairment
	2016	-	-	5	-	non-interest bearing	
Under Common Control	2017	309	9,116	102	2,126	On demand;	Unsecured; no impairment
	2016	161	7,273	94	1,688	non-interest bearing	
Retirement Plan (Note 29)	2017	-	-	-	5	On demand;	Unsecured; no impairment
	2016	-	-	-	7	non-interest bearing	
	2017	P356	P10,223	P125	P2,387		
	2016	P176	P8,623	P115	P1,881		

- Amounts owed by related parties consist of trade and non-trade receivables and share in expenses (Note 8). Amounts owed by related parties included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position amounted to P16 and P15 as of December 31, 2017 and 2016, respectively (Note 10).
- Amounts owed to related parties consist of trade payables arising from purchases of materials, bottles, shells, cartons and non-trade payables arising from the purchase of SMC's shares in BPI, professional fees, insurance, lease of outdoor advertising spaces, management fees (Note 21), reimbursement of expenses and other services rendered by related parties (Note 16). Amounts owed to related parties included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P2 and nil for December 31, 2017 and 2016, respectively.
- The compensation of key management personnel of the Group, by benefit type, follows:

	2017	2016	2015
Short-term employee benefits	P201	P181	P162
Retirement costs	27	25	24
	P228	P206	P186

28. Leasing AgreementsOperating Leases*Group as Lessor*

The Group leases some of its investment property, offices and machinery and equipment under operating lease arrangements to third parties. The leases typically run for a period of one to five years. Some lease agreements provide an option to renew the lease at the end of the lease term and are subject to review to reflect current market rentals.

Lease receivables for noncancellable lease are as follows:

	2017	2016
Less than one year	P129	P89
Between one and five years	112	61
	P241	P150

Rent income recognized in the consolidated statements of income amounted to P153, P130 and P85 in 2017, 2016 and 2015, respectively (Notes 4 and 25).

Group as Lessee

The Group leases the land and buildings where some of its offices and warehouses are located under operating lease arrangements. The leases typically run for a period of one to ten years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Lease payments for noncancellable lease are as follows:

	2017	2016
Less than one year	P28	P9
Between one and five years	65	1
More than five years	11	1
	P104	P11

Rent expense recognized in the consolidated statements of income amounted to P735, P670 and P585 in 2017, 2016 and 2015, respectively (Notes 4, 20 and 21).

29. Retirement Plans

The Parent Company and some of its international subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering certain number of their permanent employees. The Company's Retirement Plan pays 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, 2017. Valuations are obtained on a periodic basis.

The Company's Retirement Plan, San Miguel Brewery Inc. Retirement Plan (SMBRP), is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees (BOT) of each Retirement Plan. The BOT of the Company's Retirement Plan exercises voting rights over the shares it has invested in and approves material transactions. SMBRP's accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

Retirement costs recognized in profit or loss by the Company amounted to P523, P525 and P524 in 2017, 2016 and 2015, respectively, while those charged by the subsidiaries amounted to P75, P73 and P66 in 2017, 2016 and 2015, respectively (Note 23). The Group's annual contributions to the Retirement Plans consist of payments covering the current service cost.

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

	Present Value of Defined Benefit Retirement Obligation		Fair Value of Plan Assets		Net Defined Benefit Retirement Liability	
	2017	2016	2017	2016	2017	2016
Balance at beginning of year	P11,038	P10,466	P9,502	P7,334	P1,536	P3,132
Recognized in Profit or Loss						
Current service cost	529	472	-	-	529	472
Interest expense	543	490	-	-	543	490
Interest income	-	-	475	365	(475)	(365)
Administrative expense paid out of plan assets	-	-	(1)	(1)	1	1
	1,072	962	474	364	598	598
Recognized in Other Comprehensive Income						
Remeasurements						
Actuarial (gains) losses arising from:						
Experience adjustments	899	266	-	-	899	266
Changes in financial assumptions	(533)	(175)	-	-	(533)	(175)
Changes in demographic assumptions	(127)	(44)	-	-	(127)	(44)
Return on plan assets excluding interest	-	-	469	697	(469)	(697)
	239	47	469	697	(230)	(650)
Others						
Contributions	-	-	838	1,563	(838)	(1,563)
Benefits paid	(407)	(504)	(396)	(500)	(11)	(4)
Translation and other adjustments	(7)	67	1	44	(8)	23
	(414)	(437)	443	1,107	(857)	(1,544)
Balance at end of year	P11,935	P11,038	P10,888	P9,502	P1,047	P1,536

As of December 31, 2017 and 2016, the net defined benefit retirement liability included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P1,054 and P1,540, respectively.

As of December 31, 2017 and 2016, the net defined benefit retirement asset included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P7 and P4, respectively.

The retirement costs amounting to P598, P598 and P590 in 2017, 2016 and 2015, respectively, are recognized as part of "Personnel expense" account in the consolidated statements of income (Note 23).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2017 and 2016.

The Group's plan assets consist of the following:

	In Percentages	
	2017	2016
Investments in marketable securities and shares of stock	71	68
Investment in pooled funds:		
Stock trading portfolio	11	13
Fixed income portfolio	5	6
Others	13	13

Investments in Marketable Securities

As of December 31, 2017, the Group's plan assets include the following plan assets of SMBRP:

	Type	Number of Shares	Fair Value
SMB	Common	28,549,900	P20.00 per share
	Bond		816
SMC	Common	16,623,500	111.60 per share
	Preferred:		
	Subseries B	53,000	76.50 per share
	Subseries D	2,712,300	75.65 per share
	Subseries E	1,333,400	76.50 per share
	Subseries F	8,000,000	81.95 per share
	Subseries I	6,153,600	79.80 per share
	Bonds		297
TFIH	Common	1,843,144	286.00 per share
GSMI	Common	640,032	26.85 per share
Petron Corporation (Petron)	Preferred Bond	200,000	1,060.00 per share
			94
San Miguel Pure Foods Company Inc. (SMPFC)	Preferred	200,000	1,000.00 per share
South Luzon Tollway Corporation (SLTC)	Bond		180
SMC Global Power Holdings Corp. (SMC Global)	Bond		197

As of December 31, 2016, the Group's plan assets include the following plan assets of SMBRP:

	Type	Number of Shares	Fair Value
SMB	Common	28,549,900	P20.00 per share
	Bond	-	936
SMC	Common	15,222,060	92.30 per share
	Preferred:		
	Subseries B	53,000	80.00 per share
	Subseries D	2,666,700	76.00 per share
	Subseries E	1,333,400	78.20 per share
	Subseries F	8,000,000	79.50 per share
	Subseries I	6,153,600	78.00 per share
TFIH	Common	1,843,144	262.00 per share
GSMI	Common	695,432	12.70 per share
Petron	Preferred	200,000	1,045.00 per share
	Bond	-	95
SMPFC	Preferred	200,000	1,028.00 per share
SLTC	Bond	-	194
SMC Global	Bond	-	98

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

SMBRP recognized gains on the investment in marketable securities of SMC and its subsidiaries amounting to P404, P615 and P64 in 2017, 2016 and 2015, respectively.

Dividend income of SMBRP from the investment in shares of stock of SMC and its subsidiaries amounted to P156, P126 and P72 in 2017, 2016 and 2015, respectively.

Investments in Shares of Stock

As of December 31, 2017 and 2016, SMBRP has an investment in BPI representing 4,708,494 preferred shares (inclusive of nominee shares) amounting to P480 and P481, respectively, accounted for under the equity method.

Interest in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of SMC and its domestic subsidiaries (including SMBRP) to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The BOT of SMBRP approved the percentage of assets to be allocated to fixed income instruments and equities. SMBRP has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT of SMBRP 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 25.87% and 19.74% of the SMBRP's investment in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2017 and 2016, respectively.

Approximately 7.83% and 6.22% of the SMBRP's investment in pooled funds in fixed income portfolio include investment in shares of stock of SMC and its subsidiaries as of December 31, 2017 and 2016, respectively.

Others

Others include cash and cash equivalents, interest receivable, receivables from BLI and other retirement plans of SMC and its subsidiaries.

The BOT of each Retirement Plan reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P644 to the Retirement Plans in 2018.

The Retirement Plans expose the Group to certain 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 Plans' 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) 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 the historical performance of the investments.

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

	In Percentages	
	2017	2016
Discount rate	1.7 - 6.8	1.4 - 8.5
Salary increase rate	4.0 - 9.0	5.0 - 9.0

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

As of December 31, 2017 and 2016, the weighted average duration of defined benefit retirement obligation is 5.7 - 9.65 and 6.3 - 10.55 years, respectively.

As of December 31, the reasonably 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.

	2017		2016	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P942)	P1,096	(P532)	P653
Salary increase rate	983	(869)	595	(498)

BLI has amounts owed to SMBRP amounting to P5 and P7 as of December 31, 2017 and 2016, respectively, included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 27). Transactions with the Retirement Plans are made at normal market prices. Outstanding balances as of December 31, 2017 and 2016 are unsecured and settlements are made in cash.

30. Earnings Per Share

Basic and diluted EPS is computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Company (a)	P20,178	P17,217	P13,251
Weighted average number of shares outstanding (in millions) (b)	15,359	15,359	15,359
Basic/diluted EPS (a/b)	P1.31	P1.12	P0.86

As of December 31, 2017, 2016 and 2015, the Group has no dilutive debt or equity instruments.

31. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries 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 SMC 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 exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

There were no shares offered under the ESPP in 2017 and 2016.

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
- 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, AFS financial assets, noncurrent receivables, long-term debt and derivative instruments. Cash and cash equivalents 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 and accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and interest rate risks arising from the operating and financing activities. 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 Group's enterprise risk issues; f) evaluation and monitoring of related party transactions; and g) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also review the financial reports required to be included in the Group's annual report.

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 Company does not account for any fixed rate financial assets or financial liabilities at FVPL and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The Group has no floating rate borrowings in 2017 and 2016.

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

	1 - 3 Years	> 3 - 5 Years	> 5 Years	Total
December 31, 2017				
Philippine peso-denominated	P12,810	P19,462	P2,538	P34,810
Interest rate	5.93%-10.5%	5.5%-6.6%	6%	
December 31, 2016				
Philippine peso-denominated	P15,810	P12,462	P9,538	P37,810
Interest rate	5.93%-10.5%	5.5%	6%-6.6%	

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.

The Group uses natural hedges and/or purchases foreign currencies at spot rates, where necessary, to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

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

	2017		2016	
	United States (US) Dollar*	Peso Equivalent	United States (US) Dollar*	Peso Equivalent
Assets				
Cash and cash equivalents	\$171.9	P8,583	\$134.4	P6,684
Trade and other receivables	42.2	2,106	49.1	2,440
Noncurrent receivables	0.2	8	0.2	8
	214.3	10,697	183.7	9,132
Liabilities				
Accounts payable and accrued expenses	46.7	2,330	45.4	2,256
Net foreign currency-denominated monetary assets	\$167.6	P8,367	\$138.3	P6,876

* US dollar equivalent of foreign currency-denominated balances as of reporting date.

The Group reported net foreign exchange gains (losses) amounting to P51, P18 and (P34) in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 25). 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, 2017	49.93
December 31, 2016	49.72
December 31, 2015	47.06

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 monetary liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2017				
Cash and cash equivalents	(P2)	(P171)	P2	P171
Trade and other receivables	(1)	(42)	1	42
	(3)	(213)	3	213
Accounts payable and accrued expenses	1	46	(1)	(46)
	(P2)	(P167)	P2	P167

	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	(P1)	(P134)	P1	P134
Trade and other receivables	(1)	(49)	1	49
	(2)	(183)	2	183
Accounts payable and accrued expenses	1	45	(1)	(45)
	(P1)	(P138)	P1	P138

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.

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, 2017

	Carrying Amount	Contractual Cash flow	1Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,297	P28,297	P28,297	P -	P -	P -
Trade and other receivables - net	4,995	4,995	4,995	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	10	10	10	-	-	-
AFS financial assets (included under "Investments" account)	41	41	-	-	-	41
Noncurrent receivables (included under "Other noncurrent assets" account)	10	10	-	4	4	2
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	8,949	8,949	8,949	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	66	66	66	-	-	-
Long-term debt	34,665	41,070	2,188	14,335	21,818	2,729

December 31, 2016

	Carrying Amount	Contractual Cash flow	1Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P22,015	P22,015	P22,015	P -	P -	P -
Trade and other receivables - net	5,058	5,058	5,058	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1	1	4	-	-	-
AFS financial assets (included under "Investments" account)	41	41	-	-	-	41
Noncurrent receivables (included under "Other noncurrent assets" account)	42	42	-	-	42	-
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	8,019	8,019	8,019	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	64	64	64	-	-	-
Long-term debt (including current maturities)	37,617	46,303	5,234	2,188	28,883	9,998

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 and investment securities. 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 dealers, wholesalers and retailers as these factors may have an influence on the credit risk.

The Group obtains collateral 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 or cash basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash 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>	2017	2016
Cash and cash equivalents (excluding cash on hand)		P28,172	P21,953
Trade and other receivables - net	8	4,995	5,058
Derivative assets	10	10	1
Noncurrent receivables	15	10	42
		P33,187	P27,054

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 a counterparty. Generally, the maximum credit risk exposure of trade and other receivables is the 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 capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock, equity reserves and cumulative translation adjustments 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.

There were no changes in the Group's approach to capital management during the year.

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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P28,297	P28,297	P22,015	P22,015
Trade and other receivables - net	4,995	4,995	5,058	5,058
Derivative assets (included under "Prepaid expenses and other current assets" account)	10	10	1	1
AFS financial assets (included under "Investments" account)	41	41	41	41
Noncurrent receivables (included under "Other noncurrent assets" account)	10	10	42	42
Financial Liabilities				
Accounts payable and accrued expenses (excluding cash dividends payable)	8,949	8,949	8,019	8,019
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	66	66	64	64
Long-term debt (including current maturities)	34,665	36,281	37,617	40,091

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. 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, 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.

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Accounts Payable and Accrued Expenses. The carrying amount of accounts payable and accrued expenses 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 instrument as of reporting date. As of December 31, 2017 and 2016, discount rates used ranged from 2.45% to 5.14% and from 2.09% to 4.88%, respectively.

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 that are not designated as hedges are discussed below.

Derivative Instruments Not Designated as Hedges

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$39 and US\$24 as of December 31, 2017 and 2016. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P56 and P63 in 2017 and 2016, respectively.

The Group recognized marked-to-market losses from embedded derivatives amounting to P9, P62 and P49 in 2017, 2016 and 2015, respectively (Note 25).

Fair Value Changes on Derivatives

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

	2017	2016
Balance at beginning of year	(P63)	(P26)
Net change in fair value of non-accounting hedges	(9)	(62)
	(72)	(88)
Less fair value of settled instruments	(16)	(25)
Balance at end of year	(P56)	(P63)

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, 2017			December 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P10	P10	P -	P1	P1
AFS financial assets	41	-	P41	41	-	41
Financial Liabilities						
Derivative liabilities	-	66	P66	-	64	64

As of December 31, 2017 and 2016, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

34. Other Mattersa. *Amendment in Articles of Incorporation*

On December 5, 2014, the BOD approved the amendment of Article II (Primary Purpose) of the Amended Articles of Incorporation (AOI) of the Company to include the non-alcoholic beverage business (Proposed Amendment). The Company obtained the affirmative vote of stockholders owning or representing at least two-thirds of the outstanding capital stock of the Company to the Proposed Amendment, through their respective written assent received by the Company as of February 20, 2015. The SEC approved the Proposed Amendment to the Company's AOI on March 11, 2015.

b. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2017 amounted to P9,267.

Amount authorized but not yet disbursed for capital projects as of December 31, 2017 is approximately P8,291.

c. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso in 2017 and 2016 were closing rates of P49.93 and P49.72, respectively for consolidated statements of financial position accounts, and average rates of P50.40, P47.48 and P45.50 in 2017, 2016 and 2015, respectively, for income and expense accounts.

d. *Claims for Tax Refund*

i. *Filed by SMC*

On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light," one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) First Division under two cases, CTA Case Nos. 7052 and 7053. To these cases was consolidated SMC's claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it for its "San Mig Light" product for the period of February 2, 2004 to November 30, 2005 (docketed as CTA Case No. 7405). The CTA, through its First Division, and the CTA En Banc (on appeal), both ruled in favor of SMC. On April 1, 2013, the BIR elevated the consolidated cases to the Supreme Court (docketed as G.R. No. 205723).

SMC filed with the CTA by way of petition for review (Third Division and docketed as CTA Case No. 7708), a second claim for refund for overpayments of excise taxes for the period of December 1, 2005 to July 31, 2007 on November 27, 2007, as SMC was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate. The CTA Third Division granted SMC's petition for review and ordered the BIR to refund or issue a tax credit certificate in favor of SMC. The BIR elevated the decision of the Third Division to the CTA En Banc but its appeal was denied. Subsequently, the BIR filed a petition for review with the Supreme Court (docketed as G.R. No. 205045).

On January 25, 2017, the Supreme Court decided in the consolidated cases of GR Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period December 1, 2005 to July 31, 2007, and P782 for the period February 2, 2004 to November 30, 2005. The office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017.

SMC filed its third claim for refund with the CTA (Third Division docketed as CTA Case No. 7953) on July 24, 2009 for overpayments of excise taxes for the period of August 1, 2007 to September 30, 2007. This case was consolidated with CTA Case No. 7973 below.

ii. *Filed by SMB*

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

SMB filed eight claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

- (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);
- (b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);
- (c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);
- (d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);
- (e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);
- (f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - docketed as CTA Case No. 8955 (December 2014);

- (g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - docketed as CTA Case No. 9223 (December 2015);
- (h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - docketed as CTA Case No. 9513 (December 2016); and
- (i) ninth claim for refund of overpayments for the period of January 1, 2016 to December 31, 2016 - docketed as CTA Case No. 9743.

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMB and ordered the BIR to refund SMB the amount of P828. The BIR appealed to the CTA En Banc which affirmed the Decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions. With the decisions in favor of SMB, the Company, through counsel, shall move for the execution of the Decision.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division. The case was not elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of P730, while the BIR filed a Petition for Certiorari before the Supreme Court. The Petition was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB received a clarificatory Resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's Petition for Certiorari and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB, through counsel, shall proceed with the enforcement of the writ of execution.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA En Banc. The BIR was ordered to refund SMB the amount of P699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the SC through its July 24, 2017 Resolution. With the decisions in favor of SMB, the Company, through counsel, shall move for the execution of the Decision.

CTA Case No. 8591 was decided in favor of SMB by the CTA's Second Division and En Banc. The BIR elevated the case to the Supreme Court, where it remains pending to date.

CTA Case Nos. 8748, 8955, 9223, 9513 and 9743 are still pending in the CTA En Banc or in their respective Divisions.

e. *Pending Tax Cases*

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA En Banc and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA En Banc. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA En Banc rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Reconsideration which is still pending before the CTA En Banc.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA En Banc. In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of P110, where the Company requested for the cancellation of the surcharge and interests. As of December 31, 2017, both the Petition for Review and IBI's application for abatement remain pending for resolution by the CTA En Banc and the BIR, respectively.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. The Company addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. The case is currently pending while, at the same time, an application for abatement was submitted to the BIR in August 2017. As of December 31, 2017, both the Petition for Review and the application for abatement remain pending for resolution by the CTA and the BIR, respectively.

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STOCKHOLDER'S MEETING

The Company's Annual Stockholder's Meeting is held every last Tuesday of May.

SHAREHOLDER SERVICES AND ASSISTANCE

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

SMC Stock Transfer Service Corporation

40 San Miguel Avenue, Mandaluyong City

1550 Metro Manila, Philippines

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INSTITUTIONAL INVESTORS' INQUIRIES

San Miguel Brewery Inc. welcomes inquiries from Institutional investors, analysts, and the financial Community. Please write or call:

Investor Relations

San Miguel Brewery Inc.

Telephone: (632) 632-3752

Fax: (632) 632-3313 / 3749

CUSTOMER AND CONSUMER SERVICES

For inquiries, feedback, and requests, please write or call Beer Account SMC-1 customer service hotline:

Telephone: (632) 632-2000

Toll-free No.: 1-800-1-888-762-1

Fax: (632) 632-3299 routing code 2005



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