

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

CONCHITA P. JAMORA

Contact Person

8841-5100

Company Telephone Number

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Month

3	1
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Day

SEC Form 20-IS
Definitive Information Statement

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.
Number/Section

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Amended Articles

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Total No. of Stockholders

Total Amount of Borrowings	

Domestic Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I. D.

Cashier

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GINEBRA SAN MIGUEL INC.
NOTICE OF THE REGULAR ANNUAL STOCKHOLDERS' MEETING
June 23, 2020

NOTICE is hereby given that the Regular Annual Stockholders' Meeting of Ginebra San Miguel Inc. (the "Company") will be held on **Tuesday, June 23, 2020**, at **2:00 P.M.**, via remote communication and livestreamed at the Company's website: <http://www.ginebrasanmiguel.com>. Only stockholders of record at the close of business hours on May 15, 2020 are entitled to vote at this meeting.

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on May 30, 2019
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Election of Directors
6. Appointment of External Auditor
7. Other Matters
8. Adjournment

An explanation for each agenda item is shown in Appendix 1.

The current COVID-19 global pandemic has brought about health and safety concerns, prompting the Company not to hold a physical meeting. As such, attendance to the meeting will be via remote communication and questions will be sent only through a dedicated email address. Stockholders should access the Company's website to access the link to view the livestream of the meeting which will be available on the day of the meeting. The Information Statement is also available in the website. Votes will be cast only through ballots or proxies.

Ballots and proxies may be submitted to the Corporate Secretary through email at gsmi2020rsm@ginebra.sanmiguel.com.ph, which shall be acknowledged and validated with the assistance of the Company's stock transfer agent, SMC Stock Transfer Service Corporation. Validated ballots and proxies will be considered for purposes of determining quorum and voting results. For your convenience, a sample of a ballot/proxy is attached as Appendix 2. For an individual, his ballot or proxy must be accompanied by a valid government-issued identification card with a photo. For a corporation, its proxy must be accompanied by a Secretary's Certificate stating the representative's authority to represent the corporation in the meeting. In the event that the enhanced community quarantine or any of its forms which restricts the movement of persons remains, and makes it difficult to obtain notarization of the said certificate at the time of submission, the same may be submitted unnotarized. Proxies need not be notarized. Kindly submit hard copies of the ballots and proxies and notarized Secretary's Certificates within a reasonable time after regular business operation resumes. Stockholders who provide their personal information shall be deemed to agree to the collection and processing of their personal information in accordance with the Company's privacy statement for its Regular Annual Stockholders' Meeting posted on its website.

The deadline for the submission of ballots and proxies is on June 8, 2020. Validation of ballots and proxies will be on June 11, 2020 at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines.



Virgilio S. Jacinto
Corporate Secretary

EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL

Approval of the Minutes of the Regular Stockholders' Meeting held on May 30, 2019

A copy of the draft Minutes of the 2019 Regular Stockholders' Meeting ("Minutes") of Ginebra San Miguel Inc. (the "Company") was uploaded in the Company's website, <http://www.ginebrasanmiguel.com>, within five (5) days from the said meeting and may be accessed therein. A copy of the Minutes is also attached to this Information Statement.

Presentation of the Annual Report

A report on the performance of the Company in 2019 will be presented to the stockholders including the financial results and position of the Company. After the presentation of the Annual Report, the Company shall entertain questions and comments from the stockholders. Questions and comments must be submitted either in advance or during the meeting by email to gsmi2020rsm@ginebra.sanmiguel.com.ph. Questions which were not answered during the meeting shall be forwarded to the Office of the Corporate Secretary for appropriate responses.

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

Ratification by the stockholders will be obtained for all acts, resolutions and proceedings of the Board of Directors ("Board") and corporate officers of the Company since the Regular Stockholders' Meeting held on May 30, 2019 until June 23, 2020 as reflected in the minutes of the meetings of the Board, financial statements, records, reports and disclosures of the Company.

Election of Directors

The profiles of all the nine (9) nominees for election as directors of the Company are included in this Information Statement. The Corporate Governance Committee has determined, during its meeting held on March 11, 2020, that all the nominees are qualified for election by the stockholders during the 2020 Regular Stockholders' Meeting ("RASM") scheduled on June 23, 2020.

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

Appointment of External Auditor

R.G. Manabat & Co. is nominated as the Company's external auditor for 2020. On March 11, 2020, upon the favorable endorsement of the Audit and Risk Oversight Committee, the Board approved the nomination of the said external auditor for approval of the stockholders during the 2020 RSM. A more detailed information about the nominated external auditor may be found in <https://home.kpmg/ph/en/home/about/overview.html>.

Other Matters

Stockholders who, alone or together with other shareholders, hold at least five percent (5%) of the outstanding capital stock of the Company shall have the right to include items on the agenda prior to the 2020 RASM, in accordance with SEC Memorandum Circular No. 14, Series of 2020.

Note: The proceedings of the meeting will be recorded.

SAMPLE BALLOT/PROXY

Please mark the appropriate box:

☐ **Vote by ballot:** The undersigned stockholder of GINEBRA SAN MIGUEL INC. (the “Company” or “GSMI”) casts his vote on the agenda items for the 2020 Regular Annual Stockholders’ Meeting of GSMI (the “2020 RASM”), as expressly indicated with “X” below in this ballot.

☐ **Vote by proxy:** The undersigned stockholder of the Company hereby appoints _____ or, in his absence, the Chairman of the meeting, as attorney and proxy, to represent and vote all the shares registered in his name at the 2020 RASM and any of its adjournment(s), as fully as the undersigned can do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with “X” below.

PROPOSAL	ACTION			
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION	FULL DESCRIPTION PROXY
1. Election of Directors for 2020				
The following are the nominees: Eduardo M. Cojuangco, Jr. Ramon S. Ang Francisco S. Alejo III Leo S. Alvez Aurora T. Calderon Gabriel S. Claudio Mario K. Surio Minita V. Chico-Nazario-Independent Director Aurora S. Lagman-Independent Director INSTRUCTIONS: <i>To withhold authority to vote for any individual nominee(s), please mark Exception box and list the name(s) under.</i>				
	FOR	AGAINST	ABSTAIN	
2. Approval of the Minutes of the Regular Stockholders’ Meeting held on May 30, 2019				
3. Presentation of the Annual Report of the Company for the year ended December 31, 2019				
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers				
5. Appointment of R.G. Manabat and Co. as External Auditor of the Company for 2020				

Signed this ____ day of _____, 2020 at _____.

PRINTED NAME OF STOCKHOLDER_____
SIGNATURE OF STOCKHOLDER/ NAME AND
SIGNATURE OF AUTHORIZED SIGNATORY

THIS PROXY/BALLOT SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **JUNE 8, 2020**. FOR STOCKHOLDERS, THAT ARE PARTNERSHIPS, CORPORATIONS OR ASSOCIATIONS, THE PROXY MUST BE ACCOMPANIED BY A SECRETARY’S CERTIFICATE SETTING OUT THE AUTHORITY OF THEIR DESIGNATED PROXIES. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. NOTARIZATION OF THE PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

☐ Preliminary Information Statement

☒ Definitive Information Statement

2. Name of Registrant as specified in its Charter:

GINEBRA SAN MIGUEL INC.

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

Metro Manila, Philippines

4. SEC Identification Number: **142312**

5. BIR Tax Identification Code: **000-083-856-000**

6. Address of principal office: Postal Code:
3rd and 6th Floors, San Miguel Properties Centre, **1550**
St. Francis Street, Ortigas Center,
Mandaluyong City, Philippines

7. Registrant's telephone number, including area code: **(632) 8841-5100**

8. Date, time and place of the meeting of stockholders:

Date: **June 23, 2020, Tuesday**

Time: **2:00 P.M.**

Livestream via <http://www.ginebrasanmiguel.com>

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

June 1, 2020 (by uploading an electronic copy in the Company's website; and PSE Edge in compliance with SEC Notice dated April 20, 2020.)

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

<u>Title of Each Class</u>	<u>Authorized</u>	<u>Outstanding</u>
(As of December 31, 2019)		
Common	460,000,000	286,327,841
Preferred	<u>100,000,000</u>	<u>32,786,885</u>
	560,000,000	319,114,726

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

☒ Yes

☐ No

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

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

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Regular Meeting

Date: **June 23, 2020, Tuesday**

Time: **2:00 P.M.**

Livestream via <http://www.ginebrasanmiguel.com>

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

The notice of the meeting shall be published in the business section of two (2) newspapers of general circulation, in print and online format, for two (2) consecutive days, while the Information Statement shall be made available in the website of the Company, <http://www.ginebrasanmiguel.com> and in the online system of The Philippine Stock Exchange (the "PSE"), PSE Edge, in accordance with the Notice of the Securities and Exchange Commission (the "SEC") dated April 20, 2020.

WE ARE NOT ASKING YOU FOR A PROXY AND WE REQUEST THAT YOU REFRAIN FROM SENDING US A PROXY.

As attendance to the meeting will only be via remote communication, votes will be cast only through ballots or proxies. Ballots and proxies may be submitted to the Corporate Secretary through email at gsmi2020rsm@ginebra.sanmiguel.com.ph, which shall be acknowledged and validated with the assistance of the Company's stock transfer agent, SMC Stock Transfer Service Corporation. Validated ballots and proxies will be considered for purposes of determining quorum and voting results. For your convenience, a sample of a ballot/proxy is attached as Appendix 2. For an individual, his ballot or proxy must be accompanied by a valid government-issued identification card with a photo. For a corporation, its proxy must be accompanied by a Secretary's Certificate stating the representative's authority to represent the corporation in the meeting. In the event that the enhanced community quarantine or any of its forms which restricts the movement of persons remains, and makes it difficult to obtain notarization of the said certificate at the time of submission, the same may be submitted unnotarized. Proxies need not be notarized. Kindly submit hard copies of the ballots and proxies and notarized Secretary's Certificates within a reasonable time after regular business operation resumes. Stockholders who provide their personal information shall be deemed to agree to the collection and processing of their personal information in accordance with the Company's privacy statement for its Regular Stockholders' Meeting posted on its website.

The deadline for the submission of ballots and proxies is on June 8, 2020. Validation of ballots and proxies will be on June 11, 2020 at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines.

Dissenters' Right of Appraisal

Any stockholder shall have the right to dissent and demand payment of the fair value of the shares in the following instances: amendment to the corporation's articles of incorporation which has the effect of changing and restricting the rights of any shareholder or class of shares; or of authorizing preferences in any respect superior to those of outstanding shares of any class; or of extending or shortening the term of corporate existence; sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; merger or consolidation; and

investment of corporate funds in another corporation or business for any purpose other than its primary purpose. The stockholders' right of appraisal may be exercised within a period of thirty (30) days from the date on which the vote on the corporate action was taken.¹

For the 2020 Regular Annual Stockholders' Meeting (the "RASM") of Ginebra San Miguel Inc. (the "Company" or "GSMI"), there are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided in the Revised Corporation Code of the Philippines (the "RCP").

Interest of Certain Persons in Matters to be Acted Upon

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

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

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

Number of shares outstanding as of April 30, 2020:

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

All stockholders as of May 15, 2020 are entitled to vote at the 2020 RASM of the Company.

Holders of preferred shares shall be entitled to vote in the same manner as holders of common shares in accordance with the Company's Amended Articles of Incorporation (the "AOI").

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

Security Ownership of Certain Record and Beneficial Owners

Owners of record of more than 5% of the Company's voting securities as of April 30, 2020 are as follows:

¹ As provided in Sections 80 and 81 of the Revised Corporation Code of the Philippines (the "Corporation Code").

² In accordance with Section 23 of the Revised Corporation Code, a stockholder may; (a) vote such number of shares for as many persons as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of the shares owned; or (c) distribute them on the same principle among as many candidates as may be seen fit. Provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholders as shown in the books of the corporation multiplied by the whole number of directors to be elected.

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	San Miguel Food and Beverage, Inc., ³ No. 40 San Miguel Avenue, Mandaluyong City, parent company of the issuer.	San Miguel Corporation	Filipino	216,972,000	67.99%
Common	PCD Nominee Corporation ⁴ (Filipino), Ground Floor, Makati Stock Exchange Ayala, Ave., Makati City	Various	Filipino	52,213,969	16.36%
Preferred ⁵	San Miguel Corporation ⁶ , No. 40 San Miguel Avenue, Mandaluyong City.	San Miguel Corporation	Filipino	32,786,885	10.27%

As of April 30, 2020, there are 14,887,542 foreign-owned common shares, which accounts for only 4.67 % of the Company's total outstanding shares.

The following are the number of shares of the Company's capital stock (all of which are voting shares) owned of record by the directors of the Company as of April 30, 2020:

(1) Title of Class	(2) Name of Record Owner	(3) Amount and Nature of Ownership	(4) Citizenship	(5) Percent of Class
Common	Eduardo M. Cojuangco, Jr.	5,000 (r)	Filipino	0.00%
Common	Ramon S. Ang	5,000 (r)	Filipino	0.00%
Common	Francisco S. Alejo III	5,000 (r)	Filipino	0.00%
Common	Gabriel S. Claudio	5,000 (r)	Filipino	0.00%
Common	Aurora T. Calderon	5,000 (r)	Filipino	0.00%

³ The Board of Directors of San Miguel Food and Beverage, Inc. ("SMFB") authorizes any one Group A signatory, or any two Group B signatories to act and vote in person or by proxy, shares held by SMFB in other corporations. The Group A signatories of SMFB are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Francisco S. Alejo III, Joseph N. Pineda, Virgilio S. Jacinto, Aurora T. Calderon, Sergio G. Edeza, Roberto N. Huang, and Emmanuel B. Macalalag. The Group B signatories of SMFB are Bella O. Navarra, Zenaida M. Postrado, Almira C. Dalusung, Eileen P. Ratilla, Ildefonso B. Alindogan, and Daniel T. De Castro, Jr., Rita Imelda B. Palabyab and Joseph Francis M. Cruz.

⁴ Registered owner of shares held by participants in the Philippine Depository & Trust Corp., a private company organized to implement an automated book entry of handling securities in the Philippines. PCD Nominee Corporation is not related to the Company. The beneficial owners of the shares held through a PCD participant are the beneficial owners thereof to the extent of the number of shares registered under the respective accounts with the PCD participant. The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the 5% of the Company's common shares.

⁵ The Preferred Shareholders shall be entitled to vote in the same manner as Common Shareholders in accordance with the Company's Amended Articles of Incorporation.

⁶ The Board of Directors of San Miguel Corporation ("SMC") authorizes any Group A signatory, or any two Group B signatories, to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, Aurora T. Calderon and Sergio G. Edeza. The Group B signatories of SMC are Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Lorenzo G. Formoso III, Almira C. Dalusung, Ma. Raquel Paula G. Lichauco, and Casiano Cabalan, Jr.

Common	Leo S. Alvez	5,000 (r)	Filipino	0.00%
Common	Minita V. Chico Nazario	5,000 (r)	Filipino	0.00%
Common	Aurora S. Lagman	5,000 (r)	Filipino	0.00%
Common	Mario K. Surio	5,000 (r)	Filipino	0.00%

The aggregate number of shares owned of record by the directors of the Company, as a group, as of April 30, 2020, is 45,000 shares or approximately 0.0141% of the Company's outstanding capital stock.

The aggregate number of shares owned of record by all officers and directors (as a group) of the Company as of April 30, 2020 is 239,500 shares or approximately 0.0751% of the Company's outstanding capital stock.

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

DIRECTORS AND EXECUTIVE OFFICERS

Directors, Including Independent Directors and Nominees, and Executive Officers

The names of the incumbent directors and nominees for election as directors for 2020, as well as the incumbent executive officers of the Company, who are all Filipinos, and their respective ages, periods of service, directorships in other companies and positions in the last five (5) years, are as follow:

Eduardo M. Cojuangco, Jr., 84, is the Chairman and Chief Executive Officer of the Company, a position he has held since October 21, 1998. He is also the Chairman of the Company's Executive Committee. He also holds positions in the following companies listed with The Philippine Stock Exchange, Inc. ("PSE"): Chairman and Chief Executive Officer of San Miguel Corporation; Chairman of San Miguel Food and Beverage, Inc. and Chairman of Petron Corporation. He is also the Chairman of Northern Cement Corporation, San Miguel Northern Cement, Inc., ECJ and Sons Agricultural Enterprises, Inc. and Eduardo Cojuangco, Jr. Foundation, Inc.; and Director of Caiñaman Farms, Inc. He was previously a director of various companies, including but not limited to Manila Electric Company, United Coconut Planters Bank and Coca-Cola Bottlers Philippines, Inc. He attended the College of Agriculture, University of the Philippines – Los Baños and California Polytechnic College in San Luis, Obispo, U.S.A. Among others, he was conferred the Degree of Doctor of Economics. Honoris Causa, by University of Mindanao, and Doctor of Humanities, Honoris Causa by Tarlac State University.

Ramon S. Ang, 66, is the President of the Company and has been a Director of the Company since April 4, 2000. He is the Chairman of the Executive Compensation Committee and a member of the Executive Committee of the Company. He currently holds the following positions in the various subsidiaries and affiliates of the Company: Chairman of Distileria Bago, Inc., Ginebra San Miguel International Ltd. and GSM International Holdings Limited; and Director of Thai San Miguel Liquor Company Limited. Mr. Ang also holds positions in the following PSE-listed companies: Vice Chairman, President and Chief Operating Officer of San Miguel Corporation; President and Chief Executive Officer of Top Frontier Investment Holdings Inc.; President, Chief Executive Officer and Vice Chairman of San Miguel Food and Beverage, Inc.; President and Chief Executive Officer of Petron Corporation; and Chairman of Eagle Cement. He also holds the following positions: Chairman of Petron Malaysia Refining & Marketing Berhad (a company publicly listed in Malaysia) and San Miguel Brewery Hong Kong Limited (a company publicly listed in Hong Kong). His other current positions, include, among others, the following: Chairman and Chief Executive Officer of SMC Asia Cars Distributors Corp.; Chairman and President of SMC Global Power Holdings, Corp., San Miguel Properties, Inc., San Miguel Consolidated Power Corporation, and Trans Aire Development Holdings Corp.; Chairman of San Miguel Brewery Inc., San Miguel Foods, Inc., The Pure Foods Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation,

Anchor Insurance Brokerage Corp., Sea Refinery Corporation, Philippine Diamond Hotel & Resort Inc. and Manila North Harbour Port, Inc. Mr. Ang was previously the President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc., Director of Air Philippines Corporation, and Vice Chairman of Manila Electric Company. He has held directorships in various companies, including domestic and international subsidiaries of San Miguel Corporation in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Francisco S. Alejo III, 71, is a Director of the Company since May 28, 2015 and is a member of the Company's Executive Committee and Audit and Risk Oversight Committee. He is also the Director and Chief Operating Officer – Food of the San Miguel Food and Beverage, Inc., a company listed with the PSE. He also holds the following positions: President of Magnolia Inc., San Miguel Foods Inc., The Purefoods-Hormel Company Inc., and San Miguel Mills Inc.; Chairman of San Miguel Pure Foods (Vn) Co. Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp. and Golden Food Management, Inc.; and Director of the following private companies: San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited and San Miguel Foods Investment (BVI) Ltd. He is also the President Commissioner of PT San Miguel Foods (VN) Co., Ltd. He was previously the President of San Miguel Pure Foods Company, Inc. Mr. Alejo holds a Bachelor's Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

Aurora T. Calderon, 65, is a Director of the Company since November 9, 2017 and is a member of the Company's Executive Committee, Executive Compensation Committee, Corporate Governance Committee and the Company's Retirement Plan Board of Trustees. She currently holds the following positions in the various subsidiaries and affiliates of the Company: Chairman and President of East Pacific Star Bottler Phils Inc., Agri crops Industries Inc. and Crown Royal Distillers, Inc.; Chairman of Global Beverage Holdings Limited and Siam Holdings Limited; and Director of Distileria Bago, Inc., Healthy Condiments, Inc., Thai San Miguel Liquor Company Limited, Siam Wine and Liquor Limited, Ginebra San Miguel International Ltd. and GSM International Holdings Limited. She is a Director and Senior Vice President - Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation. She is also a Director of the following PSE-listed companies: San Miguel Food and Beverage, Inc., Top Frontier Investment Holdings, Inc. and Petron Corporation. Her other current positions, include, among others, the following: Director of SMITS, Inc., San Miguel Yamamura Packaging Corp., San Miguel Integrated Logistics Services, Inc., San Miguel Consolidated Power Corporation, and TransAire Development Holdings Corp. She was formerly a director of PAL Holdings, Inc., Philippine Airlines, Inc. and Manila Electric Company, to name a few. Ms. Calderon is a Certified Public Accountant who graduated magna cum laude from the University of the East with a degree in Business Administration major in Accounting. She is a member of the Financial Executives and Philippine Institute of Certified Public Accountants.

Leo S. Alvez, 77, has been a Director of the Company since April 24, 2002. He is also a member of the Audit and Risk Oversight Committee, Executive Compensation Committee and Corporate Governance Committee and Chairman of the Nominations and Hearing Committee of the Company. He is also an incumbent Director of San Miguel Corporation. Retired Major General Alvez, a former Director of San Miguel Pure Foods Company, Inc., has also held various positions in the government. He earned his Bachelor of Science degree from the Philippine Military Academy and Master's degree in Business Administration from the University of the Philippines. He also attended various military education courses.

Gabriel S. Claudio, 65, has been a Director of the Company since November 11, 2010 and a Member of the Company's Corporate Governance Committee. He is presently the Vice Chairman of Risks and Opportunities Assessment Management, Inc.; Director of Philippine Amusement and Gaming Corporation, Rizal Commercial Banking Corporation; and a Member of the Board of Trustees of Conflict Resolution Group Foundation, Inc., and TOBY's Sports and Youth Foundation, Inc. He is also a part owner of Pinac Restaurant. He was Chairman of the Board of Trustees of Metropolitan Waterworks and Sewerage System; Director of the Development Bank of the Philippines and Director of the Philippine Charity Sweepstakes Office. He also occupied several

Cabinet positions: Presidential Political Adviser to Presidents Fidel V. Ramos and Gloria Macapagal Arroyo, Presidential Legislative Adviser, Chief of the Presidential Legislative Liaison Office, Cabinet Officer for Regional Development (CORD) for Eastern Visayas and Acting Executive Secretary. He obtained his degree in AB Communication Arts from the Ateneo de Manila University and is a recipient of the Most Outstanding Graduating Communications Arts Major award.

Mario K. Surio, 73, has been a Director of the Company since May 28, 2015 and a member of the Company's Corporate Governance Committee. He is currently a Consultant of San Miguel Corporation. His other current positions, include, among others, the following: President of Daguma Agro Minerals Inc., Sultan Energy Philippines Corp. and Bonanza Energy Resources Inc.; Director of Eagle Cement Corporation, South Luzon Tollways Corp. (SLEX) and San Miguel Yamamura Packaging Corporation. He is also the Vice Chairman and Director of Private Infra Development Corp. (TPLEX). He was previously the President of CEMA Consultancy Services, Inc., Phil. Technologies Inc., Cement Management Corporation and Centech International, Inc. He also previously held the positions of Quality Control Head, Production Manager and Plant Manager of Northern Cement Corporation. Mr. Surio is a licensed Chemical Engineer having obtained his degree from the University of Sto. Tomas. He is an incumbent member of the Philippine Institute of Chemical Engineers.

Minita V. Chico-Nazario, 80, is an Independent Director of the Company since March 9, 2012, Lead Independent Director, Chairperson of the Company's Audit and Risk Oversight Committee and Member of the Company's Executive Compensation Committee and Corporate Governance Committee. She is also an Independent Director of PSE-listed companies such as, Top Frontier Investment Holdings, Inc. and San Miguel Food and Beverages, Inc., and private company, San Miguel Properties, Inc. Her other current positions, include, among others, the following: Chairman of Philippine Grains International Corporation and Director of Mariveles Grain Corporation.; Consultant of United Coconut Planters Bank and Of Counsel of Tan, Acut, Lopez and Pison Law Offices; and Dean of the College of Law of the University of Perpetual Help System DALTA in Las Piñas City. She previously held the following positions: Legal Consultant of the Philippine Amusement and Gaming Corporation and Metro Manila Development Authority; and Director of PNOC Exploration Corporation. She has served the judiciary in various capacities for forty-seven (47) years, as Presiding Justice of the Sandiganbayan and Associate Justice of the Supreme Court, among others. She obtained her law degree from the University of the Philippines and is a member of the New York State Bar.

Aurora S. Lagman, 81, is an Independent Director of the Company since March 15, 2017 and is the Chairperson of the Corporate Governance Committee and a Member of the Audit and Risk Oversight Committee of the Company. She is a part-time faculty member of the College of Law, Bulacan State University (currently on leave), Member of the Board of Trustees of Society for Judicial Excellence, and Adviser of RTC Judges Association of Bulacan, Inc. Among others, she previously held the following positions: Member, Judicial and Bar Council; Associate Justice, Court of Appeals; and Judge, Regional Trial Court, Branch 77, Malolos, Bulacan. She obtained her law degree at the College of Law of Lyceum of the Philippines and attended special studies and short courses abroad such as Program of Instruction for Lawyers, Harvard Law School, Cambridge, Massachusetts, U.S.A. and Special Course on Evidence, National Judicial College, University of Nevada, Reno, U.S.A. She also attended various domestic and foreign trainings, seminars and conferences.

Virgilio S. Jacinto, 63, is the Company's Corporate Secretary and Compliance Officer since November 11, 2010. He also holds, among others, various positions in the following PSE-listed companies: Senior Vice-President, General Counsel, Corporate Secretary and Compliance Officer of San Miguel Corporation; Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc., and Director of Petron Corporation. He is also a Director and Corporate Secretary of various domestic and international subsidiaries of San Miguel Corporation. He has served as a Director and Corporate Secretary of United Coconut Planters Bank, Director of San Miguel Brewery Inc. and a Partner of Villareal Law Offices. He is an Associate Professor of Law at the College of

Law of the University of the Philippines. Atty. Jacinto obtained his law degree from the University of the Philippines where he was class salutatorian and placed sixth in the 1981 Bar Examinations. He holds a Master of Laws degree from Harvard University and a member of the International Honor Society of the PHI KAPPA PHI and Harvard Club (Philippines).

Emmanuel B. Macalalag, 54, is the Vice President and General Manager of the Company. He currently holds the following positions in the various subsidiaries and affiliates of the Company: Director and General Manager of Distileria Bago, Inc. and East Pacific Star Bottlers Phils Inc; and Director of Agricrops Industries Inc., Crown Royal Distillers, Inc., Healthy Condiments, Inc., Thai San Miguel Liquor Company Limited, and GSM International Holdings Limited. He is also a Director and Chief Operating Officer – Liquor of San Miguel Food and Beverage, Inc., a PSE-listed company. He previously held the following positions in the Company: Manufacturing Group Manager, Manufacturing Operations Group, Planning and Management Services Manager, Business Planning and Development Manager and Business Planning and Investor Relations Manager. Mr. Macalalag obtained Bachelor and Master's Degree in Science, Major in Mathematics from De La Salle University and a PhD degree in Operations Research from the University of Melbourne, Australia.

Cynthia M. Baroy, 56, is the Vice President and Chief Finance Officer/Treasurer of the Company. She is also a Director and Treasurer of all the wholly-owned domestic subsidiaries of the Company, namely: Distileria Bago, Inc. ("DBI"), East Pacific Star Bottlers Phils Inc., Agricrops Industries Inc., Crown Royal Distillers, Inc. and Healthy Condiments, Inc. She is also an incumbent Director of the following foreign subsidiaries and affiliates of the Company: GSM International Holdings Limited, Siam Holdings Limited, Global Beverage Holdings Limited, Siam Wine and Liquor Limited, and Thai Ginebra Trading Company Limited. She is also a Member of the Board of Trustees of the Retirement Plan of the Company and DBI. She previously held the following positions: Financial Planning and Analysis Manager of San Miguel Yamamura Packaging Corporation; Finance Manager of Metal Closures & Lithography Business; and, Finance Manager of San Miguel Rengo Packaging Corporation. Ms. Baroy obtained her B.S. Commerce major in Accounting from the University of Sto. Tomas where she graduated Cum Laude. She is a Certified Public Accountant.

Allan P. Mercado, 53, is the Vice President and Sales and Marketing Manager of the Company. He is also a Director of Siam Holdings Limited. He is also a Director of Agricrops Industries Inc., Crown Royal Distillers, Inc. and Healthy Condiments, Inc. He previously held the following positions: Sales and Marketing Support Group Manager of the Company, National Sales Manager of San Miguel Beverages, Inc. and Selling Systems and Training Manager of Coca-Cola Bottlers Phils., Inc. He obtained his Bachelor of Science in Management and Industrial Engineering at the Mapua Institute of Technology.

Ronald Rudolf C. Molina, 51, is the Assistant Vice President and Marketing Manager of the Company. Previously, he was the Senior Manager and Head of the Marketing for Digital Innovations and Value-Added Services, Postpaid Broadband Business and Brand Equity Management at Smart Communications. Prior to that, he was a Senior Marketing Manager at the Coca-Cola Export Corporation - Philippines Division, looking after the business in the Visayas, Mindanao and South GMA Regions. He obtained his Bachelor of Arts in Communication Arts at the Ateneo De Manila University.

Term of Office

The members of the Board are elected at the regular meeting of the stockholders by the stockholders entitled to vote and they hold office until their successors are elected and qualified.

The nominees for election to the Board on June 23, 2020 are the following:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang

3. Francisco S. Alejo III
4. Aurora T. Calderon
5. Leo S. Alvez
6. Gabriel S. Claudio
7. Mario K. Surio
8. Minita V. Chico-Nazario – Independent Director
9. Aurora S. Lagman – Independent Director

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

Article II, Section 3 of the Company's Amended By-Laws (the "By-Laws") provides that any stockholder having at least five thousand (5,000) shares registered in his name may be elected director, provided, however, that no person shall qualify or be eligible for nomination or election to the Board if he is engaged in any business which competes with or is antagonistic to that of the Company.

The Corporate Governance Committee, during its meeting on March 11, 2020, pre-screened and shortlisted all the nine (9) candidates nominated to become members of the Board, and determined that all the nominees have all the qualifications and none of the disqualifications set forth in the Company's Amended By-Laws, Amended/New Manual on Corporate Governance (the "Manual") and other applicable laws, circulars, rules and regulations, including the issuances of the SEC and are qualified for election as directors during the 2020 RASM of the Company. This is in accordance with the Company's Manual and the Corporate Governance Committee Charter.

Independent Directors

The Company has two (2) Independent Directors who, apart from their fees and shareholdings, have no business or relationship with the Company, which could or could reasonably be perceived to materially interfere with the exercise of their independent judgment in carrying out their responsibilities as directors.

The following are the incumbent Independent Directors of the Company, who are also nominated for re-election on June 23, 2020:

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

In approving the nomination for Independent Directors, the Corporate Governance Committee considered the guidelines on the nomination of Independent Directors prescribed in Rule 38 of the Securities Regulation Code ("SRC"), its Implementing Rules and Regulations, applicable issuances of the SEC and the Company's By-Laws and Manual.

The foregoing directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The respective Certificates of Qualification⁷ of the said directors are attached hereto as Annexes "A-1" and "A-2", respectively.

⁷ The attached Certificates of Qualification are compliant with the form prescribed in SEC Memorandum Circular No. 5, Series of 2017 dated 07 March 2017.

Significant Employees

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

Family Relationships

There are no family relationships up to the fourth (4th) civil degree, either by consanguinity or affinity, among the directors, executive officers, or nominees for election as directors.

Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) that were not in the ordinary course of business. The Company observes an arm's length policy in its dealings with related parties. The Company is also guided by the Material Related Party Transactions Policy of the Company, which was approved by the Board on August 7, 2019.

No director of the Company was involved in self-dealing or related party transactions.

Parent Company

As of April 30, 2020, San Miguel Food and Beverage, Inc. ("SMFB") owns 67.99% of the shares of the Company.

Involvement in Certain Legal Proceedings

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

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the General Manager and Senior Executive Officers ⁸	2020 (estimated)	P31.9	P11.3	P9.3	P52.5
	2019	P31.8	P18.7	P8.9	P59.4
	2018	P25.5	P15.2	P7.6	P48.3

⁸ For 2018 to present, the General Manager of the Company is Mr. Emmanuel B. Macalalag and the senior officers are, Cynthia M. Baroy, Allan P. Mercado, Monina N. Cortez and Ronald Molina. Mr. Eduardo M. Cojuangco, Jr., the Chairman

All other officers and directors as a group unnamed	2020 (estimated) 2019 2018	P32.5 P31.8 P25.3	P11.6 P17.0 P13.5	P10.8 P10.7 P9.3	P54.9 P59.5 P48.1
TOTAL	2020 (estimated) 2019 2018	P64.4 P63.6 P50.8	P22.9 P35.7 P28.7	P20.1 P19.6 P16.9	P107.4 P118.9 P96.4

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

In 2019, each director received a per diem of Ten Thousand Pesos (P10,000.00) per attendance at Board and Board Committee meetings of the Company. There were six (6) Board, five (5) Audit and Risk Oversight Committee, two (2) Executive Compensation Committee and two (2) Corporate Governance Committee meetings held in 2019. Details of the directors' attendance in the said meetings are set forth hereunder:

2019 BOARD MEETING ATTENDANCE

BOARD OF DIRECTORS	DESIGNATION	MAY 30, 2019		BOARD MEETING ATTENDANCE
		REGULAR ANNUAL STOCKHOLDERS MEETING (RASM)	ORGANIZATIONAL MEETING	
Eduardo M. Cojuangco, Jr.	Chairman and CEO	Present	Present	6/6
Ramon S. Ang	President	Present	Present	6/6
Francisco S. Alejo III	Director	Present	Present	6/6
Aurora T. Calderon	Director	Present	Present	6/6
Leo S. Alvez	Director	Present	Present	6/6
Gabriel S. Claudio	Director	Present	Present	6/6
Mario K. Surio	Director	Present	Present	6/6
Minita V. Chico-Nazario	Lead Independent Director	Present	Present	6/6
Aurora S. Lagman	Independent Director	Present	Present	6/6

2019 BOARD COMMITTEE MEETING ATTENDANCE

MEMBER	EXECUTIVE	AUDIT AND RISK OVERSIGHT	EXECUTIVE COMPENSATION	CORPORATE GOVERNANCE
Eduardo M. Cojuangco, Jr.	0/0 (Chairman)	n/a	n/a	n/a
Ramon S. Ang	0/0	n/a	2/2 (Chairman)	n/a
Francisco S. Alejo III	0/0	5/5	n/a	n/a
Aurora T. Calderon	0/0	n/a	2/2	2/2
Leo S. Alvez	n/a	5/5	2/2	2/2
Gabriel S. Claudio	n/a	n/a	n/a	2/2

and Chief Executive Officer of the Company, does not receive compensation from the Company other than the per diem for attendance in Board meetings.

Mario K. Surio	n/a	n/a	n/a	2/2
Minita V. Chico-Nazario	n/a	5/5 (Chairman)	2/2	2/2
Aurora S. Lagman	n/a	5/5	n/a	2/2 (Chairman)

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

The executive officers of the Company, just like other full-time and permanent employees of the Company, subject to certain requirements,⁹ are eligible to subscribe to Company shares under the SEC-approved Company's Employees Stock Purchase Plan (the "Plan"). However, the shares covered by the Plan are no longer available for subscription as the offering period provided under the Plan officially ended on January 21, 2013.

There were no employment contracts between the Company and its executive officers.

There were neither compensatory plans nor arrangements with respect to its executive officers.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the 2020 RASM:

1. Minutes of the 2019 Regular Stockholders' Meeting held on May 30, 2019 ("2019 Minutes") with the following agenda:
 - a) Approval of the Minutes of the Regular Stockholders' Meeting held on May 31, 2018
 - b) Presentation of the Annual Report
 - c) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
 - d) Election of Directors
 - e) Appointment of External Auditor

A copy of the draft of the of the 2019 Regular Stockholders' Meeting (the "2019 Minutes") may be accessed through the Company's website, <http://www.ginebrasanmiguel.com>, which was uploaded in the website within five (5) days from the said meeting. A copy of the same is also attached hereto as **Annex "D"**

The 2019 Minutes, among others, contain the following information:

1. Voting and vote tabulation procedures used in the 2019 meeting (page 2 and Annex B);
 2. The questions and answers discussed during the open forum (page 3);
 3. The matters discussed and resolutions approved (pages 2 to 6);
 4. A record of the voting results for each agenda item (Annex B);
 5. A list of the directors or trustees, officers and stockholders or members who attended the meeting (page 1);
2. Annual Report of the Company for the year ended December 31, 2019.
 3. Ratification of all acts of the Board of Directors and Officers since the 2019 Regular Stockholders' Meeting, adopted in the ordinary course of business, including those matters taken

⁹ All full-time and permanent employees of the Company and its subsidiaries, who have rendered at least one (1) year of continuous service on a regular status (one year after regularization) at the Exercise Date (defined under the Plan), are entitled to subscribe to shares of the capital stock of the Company under the Plan, subject to the terms and conditions provided therein, which subscription shall be subject to the employees' credit profile. Members of the Board who are not employees of the Company or its subsidiaries are not eligible to participate in the Plan. The named incumbent General Manager and senior officers of the Company, as of December 31, 2019, have an aggregate subscription of 106,500 common shares under the Plan.

up during Board meetings, as well as those disclosed with the SEC and the PSE and which were uploaded in the Company's website.¹⁰ Such acts, include among others, the following:

- a) Approval of the audited separate and consolidated financial statements of the Company;¹¹
- b) Election of officers, members of the Board Committees and Lead Independent Director;¹²
- c) Designation of depository banks, approval of authorized signatories and limits for corporate transactions of the Company;¹³
- d) Declaration of Dividends;¹⁴
- e) Approval of the Material Related Party Transactions Policy of the Company; and¹⁵
- f) Approval of the material related party transactions of the Company.¹⁶

VOTING PROCEDURES

All stockholders as of May 15, 2020 shall have the right to vote during the 2020 RASM. Each of the said stockholders shall be entitled to one (1) vote for each share of stock (whether common or preferred) in his name in the books of the Company. However, in the election of directors, the nine (9) nominees with the greatest number of votes will be elected directors. A stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected.

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

Counting of the proxy and ballots will be the method by which votes will be counted. The Corporate Secretary, with the assistance of the Company's stock transfer agent, SMC Stock Transfer Service Corporation, is authorized to count any votes cast for the said meeting.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

Ginebra San Miguel Inc. (the "Company" or "GSMI") was formed on July 10, 1987 as the legal entity for the acquisition by San Miguel Corporation ("SMC") of the production assets of a liquor company that has been in operation since 1902. The Company now operates three (3) liquor

¹⁰ Copies of SEC Form 17-C (Current Reports) and other reports filed by the Company with the SEC and PSE in 2019 are made available in the Company's website at the following link: <http://ginebrasanmiguel.com/company-disclosures>.

¹¹ This was disclosed by the Company in its SEC Form 17-C dated March 13, 2019.

¹² The Board, during its organizational meeting on May 30, 2019, elected the Company's Chairman and Chief Executive Officer, President, General Manager, Corporate Secretary and Compliance Officer, Treasurer/Chief Finance Officer, Assistant Corporate Secretary and Lead Independent Director. During the said meeting the Chairman and members of the Executive Committee, Audit and Risk Oversight Committee, Executive Compensation Committee and Corporate Governance Committee were also elected.

¹³ This was disclosed by the Company in its SEC Form 17-C dated May 30, 2019.

¹⁴ The Board approved the declaration of cash dividends to stockholders in the amount of Php0.25 per common share and Php0.375 per preferred share on March 13, May 8, August 7 and November 6, 2019, which declarations were disclosed in the Company's SEC Form 17-C filed on even dates.

¹⁵ The Board, during its meeting on August 7, 2019, approved the Material Related Party Transactions Policy of the Company, which approval was disclosed in the Company's SEC Form 17-C that was filed on even date. A copy of the said policy may be accessed at the Company's website.

¹⁶ The Board during its meeting on November 15, 2020, approved the material related party transactions of the Company as disclosed in the Advisement Reports that were submitted to the SEC on November 19, 2020.

bottling facilities located in the following areas: (1) Mandaue City, Cebu; (2) Sta. Barbara, Pangasinan; and (3) Cabuyao, Laguna.

The Company is a public company under Section 17.2 of the Securities Regulation Code and its common shares are listed with the PSE.

The Company, previously a majority-owned direct subsidiary of SMC, whose ultimate parent company is Top Frontier Investment Holdings, Inc., is principally engaged in the manufacture and sale of liquor products. The Company by itself, or through its subsidiary, also toll-manufactures for third parties for the production of the latter's alcoholic and non-alcoholic beverages.

In 2018, SMC consolidated its food and beverage businesses under San Miguel Food and Beverage, Inc. ("SFMB", formerly San Miguel Pure Foods Company, Inc.) through a Deed of Exchange dated April 5, 2018 executed between SMC and SMFB whereby SMC agreed to convey and transfer to SMFB 216,972,000 common shares held by SMC in the Company and 7,859,319,270 common shares also held by SMC in San Miguel Brewery Inc. In consideration of the said transfer and upon compliance with government requirements, SMFB issued 4,242,549,130 common shares in favor of SMC. The ownership by SMFB of the common shares previously held by SMC in the Company was registered in the books of the Company on November 5, 2018. Consequently, the Company is now a majority-owned subsidiary of SMFB.

Domestic Subsidiaries and Operations

The Company has five (5) domestic subsidiaries, namely: Distileria Bago, Inc. ("DBI"), East Pacific Star Bottlers Phils Inc. ("EPSBPI"), Agricrops Industries Inc. ("AII"), Healthy Condiments, Inc. ("HCI") and Crown Royal Distillers, Inc. ("CRDI"). DBI, EPSBPI and AII are operating subsidiaries, hereinafter collectively referred to as the "Domestic Operating Subsidiaries", while HCI and CRDI are non-operating companies.

DBI became a wholly-owned subsidiary of the Company in 1996. On August 14, 2009, DBI amended its Articles of Incorporation to include in its primary purposes, the manufacture, production and tolling of not only distilled alcohol but also other types of alcohol and their by-products. It owns a distillery located in Bago City, Negros Occidental, that converts sugar cane molasses into alcohol.

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

AII was incorporated on September 14, 2000. It is currently primarily engaged in the manufacture, sale and distribution of organic fertilizer from various agro-industrial wastes.

International Subsidiaries/Affiliates and Operations

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

assigned its rights and obligations under the SPA and the JVA to GSMIL, including its right to purchase 40% ownership of the outstanding shares of CNT. The acquisition of CNT was completed in December of the same year. CNT was later renamed Thai San Miguel Liquor Company Limited (“TSML”).

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

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

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

The Company and its subsidiaries, domestic and otherwise, and their respective interests in joint ventures shall be collectively referred to as “Group”. Interest in joint venture is limited to the amount of investment and equity in net earnings only.

Other than the foregoing, there was no bankruptcy, receivership or similar proceeding or material reclassification, merger, consolidation, purchase or sale of a significant amount of assets by the Group which was not in the ordinary course of business during the past three (3) years. Other developments are also discussed in the Management Discussion and Analysis attached hereto as **Annex “C”**.

Financial Statements

The audited Consolidated Financial Statements of the Company as of December 31, 2019 with Auditor’s Report and Statement of Management’s Responsibility are attached hereto as **Annex “B”**.

Management’s Discussion and Analysis or Plan of Operation

The Management’s Discussion and Analysis or Plan of Operation of the Company as of December 31, 2019 is attached hereto as **Annex “C”**.

Financial Statements as required by Part II (4)(C) of SRC Rule 68, as amended

Considering that the 2020 RASM of the Company will be held beyond one hundred thirty-five (135) days from the Company’s fiscal year end, the following documents as of March 31, 2020 are attached and collectively marked as **Annex “E”**: (1) Interim Unaudited Balance Sheet or Statement of Financial Position; (2) Statement of Comprehensive Income; (3) Statement of Cash Flows; (4) Statement of Changes in Equity; and (5) Management’s Discussion and Analysis or Plan of Operation of the Company.

The foregoing documents will form part of the Company’s SEC Form 17-Q for the 1st quarter of 2020 (the “1st Quarter 2020 SEC Form 17Q”), which will be filed with SEC on or before May 29, 2020. The Company will upload the 1st Quarter 2020 SEC Form 17-Q in its website as soon as the same is filed with the SEC, for ease of access by the stockholders.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

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

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

Market Price

The Company's common equity is traded in the PSE. The Company's high and low closing prices for each quarter of the last three (2) fiscal years are as follows:

	2020		2019		2018	
Quarter	High	Low	High	Low	High	Low
1 st	38.80	25.00	29.05	25.00	32.90	23.05
2 nd	-	-	64.00	28.00	26.65	17.32
3 rd	-	-	69.80	45.60	30.70	20.90
4 th	-	-	52.00	37.00	29.50	22.50

The closing price of the Company's common shares as of May 22, 2020, the latest practicable date, is P30.00 per share.

Dividend Policy and Dividend Declarations

The Company's AOI provides for the right of shareholders to dividends, as and when declared by the Board at such rate or amount and period, as may be fixed by the Board. The AOI also provides that holders of preferred shares are entitled to receive, to the fullest extent allowable under the law, dividends at the rate of P1.50 per annum per preferred share, subject to certain adjustment. It shall be paid in priority to any dividend or distribution in favor of holders of common shares. Dividends on the preferred shares shall be fully cumulative.

On August 8, 2018, the Board passed and approved a Dividend Policy, which is quoted hereunder:

“Subject to the relevant provisions of applicable laws and regulations, holders of common shares shall be entitled to receive annual cash dividends at such amounts up to 50% of the prior year's recurring net income starting 2019, as may be determined by the Company's Board of Directors (“Board”). “Recurring net income” shall mean net income calculated without respect to extraordinary events that are not expected to recur. Any dividend declaration and distribution may be made over the four (4) quarters of the year.

In considering dividend declarations, the Board shall, in the exercise of its discretion and authority, take into consideration dividend payments on the preferred shares, debt covenant and restrictions, debt servicing requirements, implementation of business plans, operating expenses, budgets, appropriate reserves and working capital, major capital expenditure requirements, and funding of new investments.

This policy may be amended or modified by the GSMI's Board at any time.”

Considering the financial condition and operational requirements of the Company, the Board did not declare dividends in 2017 and 2018. However, in 2019, the Board approved the declaration of cash dividends to stockholders in the amount of Php0.25 per common share and Php0.375 per preferred share on March 13, May 8, August 7 and November 6, 2019. The Company also declared cash dividends in arrears of seven (7) years (from 2012 to 2018) and one (1) quarter in 2002 at

Php0.375 to holders of preferred shares on March 13, 2019, conformably with the AOI of the Company.

Common Equity and Related Stockholders' Matter

The approximate number of shareholders of common shares as of April 30, 2020 is six hundred forty-four (644).

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

The top 20 stockholders of the Company as of April 30, 2020 are as follows:

Rank	Name of Stockholders	Common	Preferred	Total No. of Shares	% of Total O/S
1	San Miguel Food and Beverage, Inc.	216,972,000	0	216,972,000	67.99%
2	PCD Nominee Corporation (Filipino)	52,213,969	0	52,213,969	16.36%
3	San Miguel Corporation	0	32,786,885	32,786,885	10.27%
4	PCD Nominee Corporation (Non-Filipino)	14,862,741	0	14,862,741	4.66%
5	La Suerte Cigar & Cigarette Factory	200,000	0	200,000	0.06%
6	Lim Tay	80,000	0	80,000	0.03%
7	Rosalina A. Lioanag	51,500	0	51,500	0.02%
8	Roman T. Yap	50,000	0	50,000	0.02%
9	Emmanuel B. Macalalag	46,500	0	46,500	0.01%
10	Isabel C. Suntay	31,000	0	31,000	0.01%
11	Monina N. Cortez	30,000	0	30,000	0.01%
12	Lucia C. Unsay	30,000	0	30,000	0.01%
13	FMF Development Corporation	30,000	0	30,000	0.01%
14	Cynthia M. Baroy	30,000	0	30,000	0.01%
15	Estrella M. Tamayo	30,000	0	30,000	0.01%
16	Romulo G. Quinto	30,000	0	30,000	0.01%
17	Ma. Consuelo A. Cordero	27,000	0	27,000	0.01%
18	Edan Corporation	26,100	0	26,100	0.01%
19	Rolando B. Bisana	25,000	0	25,000	0.01%
20	Luzviminda C. Santos &/or Cynthia C. Santos	21,000	0	21,000	0.01%

Independent Public Accountants

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

Fees for the services rendered by the external auditor to the Company and its subsidiaries in connection with the Company's annual financial statements and other statutory and regulatory filings (inclusive of retainer fees and out-of-pocket expenses) amounted to P8.1 million, P7.7 million and

P7.4 million in 2019, 2018 and 2017, respectively. For non-audit fees, the same amounted to P0.855 million in 2018.

The Company's Audit and Risk Oversight Committee, pursuant to its Duties and Responsibilities as set forth in its Charter and the Company's Manual, recommends to the Board the appointment of the Company's external auditor. The said Committee also reviews the terms of engagement and scope of services of the external auditor and endorses the same for the approval of the Board. It also exercises effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.

On March 11, 2020, the Board, upon endorsement of the Audit and Risk Oversight Committee, nominated R.G. Manabat & Co. as the Company's external auditor for 2020. The said nomination shall be recommended for approval of the stockholders during the 2020 RASM that will be held on June 23, 2020. The representatives of the said professional firm are expected to participate virtually attend the said meeting and will be available to respond to appropriate questions, if necessary. They will also have the opportunity to make a statement, if they so desire.

Compliance with Leading Practice on Corporate Governance

The Company, its Board, Management, Officers and employees firmly believe that corporate governance is a necessary component of what constitutes sound strategic business management and the vital role it plays in attaining corporate goals and creating and sustaining shareholder value.

On August 6, 2002, the Company, through its Board institutionalized the principles of good corporate governance in the entire organization by establishing and implementing the Company's Manual on Corporate Governance (the "Manual"). Since its adoption, the Manual has been amended several times in order to align the provisions thereof with the prevailing issuances, rules and circulars of the Securities and Exchange Commission (the "SEC"), the most recent of which is the Memorandum Circular No. 19, Series of 2016 (the "Circular") on the Code of Corporate Governance for Publicly-Listed Companies that took effect on January 1, 2017. Conformably with the Circular, the Company formally approved and adopted an amended or new Manual on May 9, 2017.

The Board, conformably with the amended or new Manual and considering the Company's size, risk profile and operations, apart from the Executive Committee, established the following three (3) committees:

(1) Audit and Risk Oversight Committee (formerly known as the Audit Committee) is tasked to perform the functions of the Audit, Board Risk Oversight and Related Party Transactions Committees.

(2) Corporate Governance Committee (which took over the functions of the Nomination and Hearing Committee) is mandated to assist the Board in the performance of its corporate governance responsibilities, including, among others, the duty to pre-screen and shortlist all candidates nominated to become a member of the Board.

(3) Executive Compensation Committee, which is tasked among others to establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing remuneration packages of corporate officers and directors.

As for the Company's Integrated Annual Corporate Governance Report ("I-ACGR"), which is a tool to disclose publicly-listed companies' compliance/noncompliance with the recommendations provided under the Code of Corporate Governance for Publicly-Listed Companies, which follows the "comply or explain" approach, and for harmonizing the corporate governance reportorial requirements of the SEC and PSE, the Company complies with the requirements set forth in SEC Memorandum Circular No. 15, Series of 2017. The Company submitted its 2018 I-ACGR to SEC on

May 30, 2019. For its 2019 I-ACGR, it will be submitted to the SEC not later than July 30, 2020 in accordance with the SEC Notice dated April 22, 2020, and shall be made available at its website.

All incumbent directors and officers of the Company, including the Internal Audit Group Head, attended a Corporate Governance Seminar conducted by SEC-accredited providers: Risk, Opportunities, Assessment and Management (ROAM), Inc., SGV & Co. and Center for Global Best Practices, in compliance with the requirement of the SEC.

The members of the Board also accomplished an Internal Self-Rating Form (the “Form”) for the purpose of evaluating the Board’s performance for 2019. The Form covers four (4) broad areas of Board Performance: (1) Fulfillment of the Board’s Key Responsibilities; (2) Board-Management Relationship; (3) Effectiveness of Board Processes and Meetings; and (4) Individual Performance of Board Members. The Form requires the Board members to read each statement and rank their response on the 5-point scale directly below each statement with “1” indicating the they strongly disagree with the statement and “5” indicating that they strongly agree with the statement. Additional space is also provided for their comments. Based on the accomplished Form, the Board has substantially met its mandate.

[The space below is intentionally left blank]

UNDERTAKING

The Company will post the full version of its SEC Form 20-IS or the Definitive Information Statement (the "DIS") together with all its annexes including the 2019 Audited Consolidated Financial Statements upon its approval by the SEC, as well as its SEC Form 17-A, in the Company's website, specifically through the link <http://www.ginebrasanmiguel.com/company-disclosures/> and in the PSE Edge.

Upon the written request of a stockholder, and when circumstances permit, the Company undertakes to furnish the stockholder a copy of the full version of the DIS and/or its SEC Form 17-A. Any of the foregoing requests, which shall be provided by the Company free of charge, should be in writing and addressed to:

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

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on May 28, 2020.

GINEBRA SAN MIGUEL INC.

By:



Virgilio S. Jacinto
Corporate Secretary

COVER SHEET

1	4	2	3	1	2
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S. E. C. Registration Number

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

(Company's Full Name)

3 rd	&	6 th		F	L	R	S	.		S	A	N		M	I	G	U	E	L
P	R	O	P	E	R	T	I	E	S		C	E	N	T	R	E	,		
S	T	.		F	R	A	N	C	I	S		S	T	R	E	E	T	,	
O	R	T	I	G	A	S		C	E	N	T	E	R	,					
M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y				

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

CONCHITA P. JAMORA

Contact Person

8841-5100

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

CERTIFICATE OF INDEPENDENT DIRECTOR
--

FORM TYPE

--	--

Month
Annual Meeting

--	--

Day
Annual Meeting

--

Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

--

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I. D.

Cashier-----
STAMPS

Remarks = pls. use black ink for scanning purposes

CERTIFICATION OF INDEPENDENT DIRECTOR

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

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

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
	(Please refer to attached "Annex A")	

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

Done, this 11th day of March, 2020 at Mandaluyong City.

Minita V. Chico-Nazario
Minita V. Chico-Nazario

SUBSCRIBED AND SWORN to before me this 11th day of March, 2020 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Senior ID No. 02588 issued on January 20, 2005.

Doc. No. 232;
Page No. 48;
Book No. 1;
Series of 2020.



Maila R. Nicolasora
MAILA R. NICOLASORA
Commission No. 0259-19
Notary Public for Mandaluyong City
Until December 31, 2020
GSMI, 6th Floor, San Miguel Properties Centre,
St. Francis Street, Mandaluyong City
Roll No. 45082
PTR No. 2967098; 01/07/2020; Mandaluyong City
RD | Notary Member No. 887462-01/10/2012 Quezon City

ANNEX "A"

AFFILIATIONS

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Philippine Grains International Corporation	Chairman	January 2011 to present
Mariveles Grain Corporation	Director	January 2011 to present
San Miguel Food and Beverage, Inc.	Independent Director	May 8, 2015 to present
Top Frontier Investment Holdings, Inc.	Independent Director	January 2, 2014 to present
San Miguel Properties, Inc.	Independent Director	May 9, 2012 to present
Tan Acut Lopez & Pison Law Offices	Of Counsel	November 2016 to present
College of Law, The University of Perpetual	Dean	June 2011 to present
United Coconut Planters Bank	Consultant	Up to Present
Integrated Bar of the Philippines, Manila IV	Member	Up to present
Women Lawyers Association of the Philippines	Member	Up to present
U.P. Women's Club	Member	Up to present
U.P. Women Lawyers' Circle	Member	Up to present

COVER SHEET

142312

S. E. C. Registration Number

G I N E B R A

S A N M I G U E L

I N C .

(Company's Full Name)

3rd & 6th F L R S . S A N M I G U E L

P R O P E R T I E S C E N T R E ,

S T . F R A N C I S S T R E E T ,

O R T I G A S C E N T E R ,

M A N D A L U Y O N G C I T Y

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

CONCHITA P. JAMORA

Contact Person

8841-5100

Company Telephone Number

12

Month

31

Day

CERTIFICATE OF INDEPENDENT
DIRECTOR

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total Amount of Borrowings

File Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

CERTIFICATION OF INDEPENDENT DIRECTOR

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

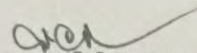
1. I am a nominee for Independent Director of Ginebra San Miguel Inc. and have been its Independent Director since March 15, 2017.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
	(Please refer to attached "Annex A")	



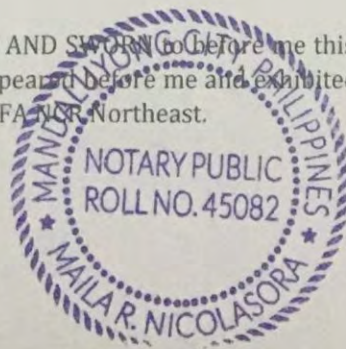
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of GSMI, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not in any way related to any director/officer/substantial shareholder of GSMI and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I have the required written permission from the Dean of the College of Law of Bulacan State University to be an Independent Director in GSMI, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules. Please refer to attached Annex "B".
7. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of GSMI of any changes in the abovementioned information within five days from its occurrence.

Done, this 11th day of March, 2020 at Mandaluyong City.


Aurora S. Lagman

SUBSCRIBED AND SWORN to before me this 11th day of March, 2020 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport No. P0010519A issued on August 20, 2016 at DFA NYC Northeast.

Doc. No. 231;
Page No. 48;
Book No. 1;
Series of 2020.




MAILA R. NICOLASORA
Commission No. 0259-19
Notary Public for Mandaluyong City
Until December 31, 2020
GSMI, 6th Floor, San Miguel Properties Centre,
St. Francis Street, Mandaluyong City
Roll No. 45082
PTR No. 2967098; 01/07/2020; Mandaluyong City
IBP Lifetime Member No. 083552; 01/10/2012; Quezon City

ANNEX "A"

AFFILIATIONS

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



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



CERTIFICATION

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

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

Done this 15th day of March 2017 at Malolos City, Province of Bulacan.

A handwritten signature in cursive script, appearing to read "Nenita D.C. Tuazon".

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

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017

With Independent Auditors' Report

COVER SHEET

For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					1	4	2	3	1	2
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COMPANY NAME

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

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

3	r	d		a	n	d		6	t	h		F	l	o	o	r	,		S	a	n		M	i	g	u	e	l		
P	r	o	p	e	r	t	i	e	s		C	e	n	t	r	e	,		S	t	.		F	r	a	n	c	i	s	
S	t	r	e	e	t	,		O	r	t	i	g	a	s		C	e	n	t	e	r									
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y															

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's email Address

--

Company's Telephone Number/s

(632) 8841-5100

Mobile Number

--

No. of Stockholders

645

Annual Meeting (Month / Day)

May 30

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Cynthia M. Baroy

Email Address

cmbaroy@ginebra.sanmiguel.com.ph

Telephone Number/s

(632) 8841-5100

Mobile Number

--

CONTACT PERSON'S ADDRESS

--

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Ginebra San Miguel Inc. (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements, including the additional components attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

CYNTHIA M. BAROY
Chief Finance Officer

RAMON S. ANG
President

Signed this 11th day of March 2020

GINEBRA SAN MIGUEL, INC.

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

A Subsidiary of:  **SAN MIGUEL CORPORATION**



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Ginebra San Miguel Inc. and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, 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.

Revenue Recognition (P29,063 million)

Refer to Note 3, *Significant Accounting Policies* and Note 26, *Related Party Disclosures* to the consolidated financial statements.

The risk

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when control of the goods or services is transferred to the customer over time or at a point in time, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. While revenue recognition and measurement is not complex for the Group, revenue may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement.

Our response

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

- We evaluated and assessed the revenue recognition policies of the Group in accordance with PFRS 15, *Revenue from Contracts with Customers*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents to ascertain that revenue recognition criteria is met.
- We tested, on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to supporting documentation such as sales invoices and delivery documents to assess whether these transactions are recorded in the appropriate financial year.
- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.
- We tested, on a sampling basis, credit notes issued after the financial year, to identify and assess any credit notes that relate to sales transactions recognized during the financial year.

Valuation of Investments in Joint Ventures (P58 million)

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Use of Judgments, Estimates and Assumptions* and Note 9, *Investments in Joint Ventures* to the consolidated financial statements.

The risk

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

As discussed in Note 9, the recoverable amount of investments in joint ventures has been determined based on a valuation using the discounted cash flows model. The valuation method used is complex and judgmental in nature, utilizing assumptions based on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates and discount rates, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response

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

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



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, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 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 Darwin P. Virocel.

R.G. MANABAT & CO.

A handwritten signature in black ink, appearing to read 'D. Virocel', with a long horizontal line extending to the left.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-031-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8116787

Issued January 2, 2020 at Makati City

March 11, 2020

Makati City, Metro Manila

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(In Thousands)

	<i>Note</i>	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 30, 31	P354,131	P224,475
Trade and other receivables - net	4, 6, 26, 30, 31	1,551,469	1,743,039
Inventories	4, 7	6,113,043	3,897,939
Prepaid expenses and other current assets	8, 26, 30, 31	1,080,723	1,072,699
Total Current Assets		9,099,366	6,938,152
Noncurrent Assets			
Investments in joint ventures	4, 9	57,963	280,413
Property, plant and equipment - net	4, 10	4,441,137	4,661,404
Right-of-use assets - net	4, 11, 26, 27	196,218	-
Goodwill - net	4, 12	126,863	126,863
Deferred tax assets - net	4, 17	567,944	606,005
Other noncurrent assets - net	4, 13, 26, 30, 31	169,731	373,648
Total Noncurrent Assets		5,559,856	6,048,333
		P14,659,222	P12,986,485
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	14, 26, 30, 31	P1,519,000	P2,476,100
Accounts payable and accrued expenses	15, 26, 30, 31	4,208,502	2,710,947
Lease liabilities - current portion	26, 27, 30, 31	67,980	-
Income and other taxes payable		346,417	299,723
Current maturities of long-term debt - net of debt issue costs	16, 24, 30, 31	233,791	116,148
Total Current Liabilities		6,375,690	5,602,918
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	16, 30, 31	642,964	876,755
Retirement liabilities	4, 28	363,083	243,036
Lease liabilities - net of current portion	26, 27, 30, 31	157,684	-
Total Noncurrent Liabilities		1,163,731	1,119,791
Total Liabilities		7,539,421	6,722,709
Equity			
	18		
Capital stock		399,063	399,063
Additional paid-in capital		2,539,454	2,539,454
Equity reserves		(311,470)	(199,197)
Retained earnings:			
Appropriated		2,500,000	2,500,000
Unappropriated		4,662,727	3,694,429
Treasury stock		(2,669,973)	(2,669,973)
Total Equity		7,119,801	6,263,776
		P14,659,222	P12,986,485

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands, Except Per Share Data)

	<i>Note</i>	2019	2018	2017
SALES	26	P29,063,235	P24,834,987	P20,892,379
COST OF SALES	19	21,127,308	18,359,888	15,624,652
GROSS PROFIT		7,935,927	6,475,099	5,267,727
SELLING AND MARKETING EXPENSES	20	(2,771,512)	(2,560,340)	(2,132,714)
GENERAL AND ADMINISTRATIVE EXPENSES	21	(2,286,235)	(2,083,051)	(1,827,701)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	10, 14, 16, 24, 27, 28	(169,601)	(220,658)	(275,515)
EQUITY IN NET LOSSES OF JOINT VENTURES	9	(238,125)	(82,822)	(186,278)
INTEREST INCOME	5, 26	31,594	24,681	23,989
GAIN (LOSS) ON DISPOSAL/RETIREMENT OF PROPERTY AND EQUIPMENT	10	1,532	622	(2,097)
OTHER INCOME - Net	25	117,762	10,227	81,037
INCOME BEFORE INCOME TAXES		2,621,342	1,563,758	948,448
INCOME TAX EXPENSE - Net	17	949,554	510,719	346,205
NET INCOME		P1,671,788	P1,053,039	P602,243
Basic and Diluted Earnings Per Share	29	P5.67	P3.51	P1.93

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	<i>Note</i>	2019	2018	2017
NET INCOME		P1,671,788	P1,053,039	P602,243
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that may be reclassified to profit or loss				
Share in other comprehensive income of joint ventures	9	15,677	16,943	66,932
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	28	(182,785)	256,944	(122,827)
Income tax benefit (expense)	17	54,835	(77,083)	36,848
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		(112,273)	196,804	(19,047)
TOTAL COMPREHENSIVE INCOME - Net of tax		P1,559,515	P1,249,843	P583,196

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	Note	Capital Stock		Additional Paid-in Capital	Equity Reserves		Retained Earnings		Treasury Stock		Total
		Common	Preferred		Reserve for Retirement Plan	Cumulative Translation Adjustments	Appropriated	Unappropriated	Common	Preferred	
As at January 1, 2019 as previously reported (Audited)		P345,625	P53,438	P2,539,454	(P241,483)	P42,286	P2,500,000	P3,694,429	(P1,947,198)	(P722,775)	P6,263,776
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16	3	-	-	-	-	-	-	(11,420)	-	-	(11,420)
As at January 1, 2019, as adjusted		345,625	53,438	2,539,454	(241,483)	42,286	2,500,000	3,683,009	(1,947,198)	(722,775)	6,252,356
Share in other comprehensive income of joint ventures	9	-	-	-	-	15,677	-	-	-	-	15,677
Equity reserve for retirement plan	28	-	-	-	(127,950)	-	-	-	-	-	(127,950)
Other comprehensive income (loss)		-	-	-	(127,950)	15,677	-	-	-	-	(112,273)
Net income		-	-	-	-	-	-	1,671,788	-	-	1,671,788
Total comprehensive income		-	-	-	(127,950)	15,677	-	1,671,788	-	-	1,559,515
Cash dividends and distribution:											
Common		-	-	-	-	-	-	(286,332)	-	-	(286,332)
Preferred		-	-	-	-	-	-	(405,738)	-	-	(405,738)
Total cash dividends and distributions	18	-	-	-	-	-	-	(692,070)	-	-	(692,070)
As at December 31, 2019	18	P345,625	P53,438	P2,539,454	(P369,433)	P57,963	P2,500,000	P4,662,727	(P1,947,198)	(P722,775)	P7,119,801
As at January 1, 2018		P345,625	P53,438	P2,539,454	(P421,344)	P25,343	P2,500,000	P2,641,390	(P1,947,198)	(P722,775)	P5,013,933
Share in other comprehensive income of joint ventures	9	-	-	-	-	16,943	-	-	-	-	16,943
Equity reserve for retirement plan	28	-	-	-	179,861	-	-	-	-	-	179,861
Other comprehensive income		-	-	-	179,861	16,943	-	-	-	-	196,804
Net income		-	-	-	-	-	-	1,053,039	-	-	1,053,039
Total comprehensive income		-	-	-	179,861	16,943	-	1,053,039	-	-	1,249,843
As at December 31, 2018	18	P345,625	P53,438	P2,539,454	(P241,483)	P42,286	P2,500,000	P3,694,429	(P1,947,198)	(P722,775)	P6,263,776

Forward

	Note	Capital Stock		Additional Paid-in Capital	Equity Reserves		Retained Earnings		Treasury Stock		Total
		Common	Preferred		Reserve for Retirement Plan	Cumulative Translation Adjustments	Appropriated	Unappropriated	Common	Preferred	
As at January 1, 2017		P345,625	P53,438	P2,539,454	(P335,365)	(P41,589)	P2,500,000	P2,039,147	(P1,947,198)	(P722,775)	P4,430,737
Share in other comprehensive income of joint ventures	9	-	-	-	-	66,932	-	-	-	-	66,932
Equity reserve for retirement plan	28	-	-	-	(85,979)	-	-	-	-	-	(85,979)
Other comprehensive income (loss)		-	-	-	(85,979)	66,932	-	-	-	-	(19,047)
Net income		-	-	-	-	-	-	602,243	-	-	602,243
Total comprehensive income		-	-	-	(85,979)	66,932	-	602,243	-	-	583,196
As at December 31, 2017	18	P345,625	P53,438	P2,539,454	(P421,344)	P25,343	P2,500,000	P2,641,390	(P1,947,198)	(P722,775)	P5,013,933

See Notes to the Consolidated Financial Statements.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P2,621,342	P1,563,758	P948,448
Adjustments for:				
Depreciation and amortization	10, 11, 13, 22	723,218	671,440	630,855
Equity in net losses of joint ventures	9	238,125	82,822	186,278
Interest expense and other financing charges	10, 14, 16, 24, 27, 28	169,601	220,658	275,515
Provision for impairment losses	6, 13, 21, 25	112,804	112,106	44,653
Retirement expense	23, 28	60,738	102,741	91,291
Net unrealized foreign exchange loss	25, 30	806	525	215
Write-down of inventories to net realizable value	7, 19	-	25,500	179,052
Loss (gain) on disposal/retirement of property and equipment - net	10	(1,532)	(622)	2,097
Interest Income	5, 26	(31,594)	(24,681)	(23,989)
Net derivative (gain) loss	25, 31	(33,221)	10,250	7,946
Operating income before working capital changes		3,860,287	2,764,497	2,342,361
Decrease (increase) in:				
Trade and other receivables		198,712	(28,858)	749,318
Inventories		(2,187,938)	(611,764)	(477,765)
Prepaid expenses and other current assets		(169,759)	122,475	(89,227)
Increase (decrease) in:				
Accounts payable and accrued expenses		1,502,775	702,822	119,810
Income and other taxes payable		(118,750)	26,433	(57,138)
Cash generated from operations		3,085,327	2,975,605	2,587,359
Interest received		22,647	24,425	23,915
Contribution to retirement plan	28	(137,105)	(139,731)	(109,126)
Interest and other financing charges paid		(142,958)	(227,132)	(282,619)
Taxes paid		(502,889)	(131,077)	(491)
Net cash flows provided by operating activities		2,325,022	2,502,090	2,219,038

Forward

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	10	(P386,631)	(P273,802)	(P217,547)
Increase (decrease) in other noncurrent assets		31,562	(29,184)	(1)
Proceeds from disposal of property and equipment	10	1,846	3,205	362
Net cash flows used in investing activities		(353,223)	(299,781)	(217,186)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings	14	7,714,000	38,230,380	64,908,713
Long-term borrowings	16	-	992,500	-
Payments of:				
Lease liabilities	27	(79,665)	-	-
Long-term borrowings	16	(117,647)	(114,285)	(114,286)
Cash dividends		(686,960)	(4)	-
Short-term borrowings	14	(8,671,100)	(41,286,620)	(67,374,484)
Net cash flows used in financing activities		(1,841,372)	(2,178,029)	(2,580,057)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(771)	1,428	(333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		129,656	25,708	(578,538)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	5	224,475	198,767	777,305
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	5	P354,131	P224,475	P198,767

See Notes to the Consolidated Financial Statements.

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

1. Reporting Entity

Ginebra San Miguel Inc. (GSMI or the Company) was incorporated in the Philippines on July 10, 1987.

GSMI is primarily engaged in the manufacture and sale of alcoholic beverages.

San Miguel Corporation (SMC) consolidated its food and beverage business under San Miguel Food and Beverage, Inc. (SMFB), formerly San Miguel Pure Foods Company, Inc., through the execution of a Deed of Exchange dated April 5, 2018 executed between SMC and SMFB whereby SMC agreed to convey and transfer to SMFB 216,972,000 common shares held by SMC in the Company and 7,859,319,270 common shares in San Miguel Brewery Inc. In consideration of the said transfer and upon compliance with government requirements, SMFB issued 4,242,549,130 common shares in favor of SMC. Consequently, the ownership by SMFB of the common shares previously held by SMC in the Company has been registered in the books of the Company on November 5, 2018. Thus, the Company is now a majority-owned subsidiary of SMFB while SMC is the Company's intermediate parent company. Top Frontier Investment Holdings, Inc. is the ultimate parent company.

On February 20, 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have the perpetual existence, unless the corporation, upon a vote of its stockholders representing a majority of its outstanding capital stock, notifies the Commission that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on February 23, 2019.

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

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

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 11, 2020.

Basis of Measurement

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

Items	Measurement Basis
Financial assets at fair value through profit or loss (FVPL)	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation

Functional and Presentation Currency

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

Basis of Consolidation

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

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

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- 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 also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 8.5% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- applied the exemption not to recognize right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position.

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	Note	
ASSETS		
Prepaid expenses and other current assets	8	(P6,257)
Right-of-use assets - net	11	225,439
Deferred tax assets	17	28,291
		P247,473
LIABILITIES AND EQUITY		
Lease liabilities - current portion	27	P49,265
Lease liabilities - net of current portion	27	209,628
Total Liabilities		258,893
Retained earnings		(11,420)
		P247,473

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P142,736
Recognition exemption for short-term leases	(56,561)
Extension and termination options reasonably certain to be exercised	290,092
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(117,374)
Lease liabilities recognized as at January 1, 2019	P258,893

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendments to PFRS 9). The amendments cover the following areas:
 - *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 (FVOCI) 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.

- *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 the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

New and Amended Standards and Framework Not Yet Adopted

A number of new and amended standards and framework are effective for annual periods beginning after January 1, 2019 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 framework on the respective effective dates:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*). The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:
 - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
 - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
 - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.
 - *Separately Identifiable Risk Components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The amendments apply for annual reporting periods beginning on or after January 1, 2020, with early application permitted.

The amendments are still subject to the approval by the FRSC.

Deferral of the Local Implementation of Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

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

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

The Group has no financial assets at FVOCI as at December 31, 2019 and 2018.

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

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

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group’s cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included under this category (Notes 5, 6, 13, 30 and 31).

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income.

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 8, 30 and 31).

Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

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

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 15, 30 and 31).

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

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 the consolidated statements of income.

The Group's liabilities arising from its trade or borrowings such as notes payable, accounts payable and accrued expenses, long-term debt and lease liabilities are included under this category (Notes 14, 15, 16, 27, 30 and 31).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

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

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

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

At each reporting date, the Group assesses whether these financial assets at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

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

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

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

Derivative Financial Instrument

Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative if 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.

However, an embedded derivative is not separated if the host contract is a financial asset.

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 embedded derivatives as at December 31, 2019 and 2018 (Notes 8, 15, 30 and 31).

Inventories

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

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

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

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.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Business Combination

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

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

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

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

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

Goodwill in a Business Combination

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

Each unit or group of units to which the goodwill is allocated:

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

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

Investments in Joint Ventures

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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 related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

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

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

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

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

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

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

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

Leases

Policy Applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset; and
- the Group has the right to direct the use of the identified asset.

Group as Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, as follows:

	Number of Years
Land	9.5 -15
Building and improvements	2 - 15

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets (i.e., office equipment). The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

Group as Lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15 to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019

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

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

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

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

Operating Lease

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

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

Intangible Assets

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

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

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

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

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

Deferred Containers

Deferred containers (shells and pallets) are stated at cost and are amortized over the estimated useful life of ten years. These are presented under "Other noncurrent assets - net" account in the consolidated statements of financial position. Amortization of deferred containers is included under "General and administrative expenses" account in the consolidated statements of income.

Impairment of Non-financial Assets

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

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

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

Additional Paid-in Capital

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

Retained Earnings

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

Treasury Shares

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

Revenue

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

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

Revenue from Sale of Goods

Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. Trade discounts are determined at inception of the contract and is not subject to variability. Volume rebates and returns do not result to significant variable consideration. The general payment terms with customers are cash-on-delivery and credit terms which are generally 30 to 60 days from invoice date.

Revenue from Services

Revenue from services is recognized when the performance of contractually agreed task has been rendered and control over the service has been transferred to the customer. General payment terms is on an average of 30 days from invoice date.

Revenue from Other Sources

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

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

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

Others. Other income 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.

Borrowing Costs

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

Research Costs

Research costs are expensed as incurred.

Employee Benefits

Short-term Employee Benefits

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

Retirement Costs

The 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; and
- Remeasurements of defined benefit retirement liability or asset.

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

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

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

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

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are initially recorded in 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 translated to the functional currency at exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of monetary items that in substance form part of a net investment in a foreign operation and hedging instruments in a qualifying cash flow hedge or hedge of a net investment in a foreign operation 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 are translated to Philippine peso at average exchange rates for the period.

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

When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified 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 “Cumulative translation adjustments” account in the consolidated statements of changes in equity.

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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.

Basic and Diluted Earnings Per Common Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

Operating Segment

The reporting format of the Group’s operating segment is determined based on the Group’s risks and rates of return which are affected predominantly by differences in the products and services produced. The Group has a single segment which is the alcoholic beverages segment.

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

In the process of applying the 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:

Determining whether a Contract Contains a Lease (Upon the Adoption of PFRS 16). The Group uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Group makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

Determining whether an Arrangement Contains a Lease (Prior to the adoption of PFRS 16). The Group uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Operating Lease Commitments - Group as Lessor. The Group has entered into various lease agreements as a lessor. The Group had determined that it retains all significant risks and rewards of ownership of the property leased out on operating leases.

Rent income recognized as part of "Other income - net" account in the consolidated statements of income, amounted to P444, P186 and P240 in 2019, 2018 and 2017, respectively (Notes 25, 26 and 27).

Operating Lease Commitments - Group as Lessee (Prior to the adoption of PFRS 16). The Group has entered into various lease agreements as a lessee. The Group had determined that the significant risks and rewards of property leased from third parties are retained by the lessors.

Rent expense recognized in the consolidated statements of income amounted to P125,692 and P118,085 in 2018 and 2017, respectively (Notes 19, 20, 21 and 27).

Determining the Lease Term of Contracts with Renewal Options - Group as Lessee (Upon the Adoption of PFRS 16). The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group has several lease contracts that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

Estimating the Incremental Borrowing Rate (Upon the Adoption of PFRS 16). The Group cannot readily determine the interest rate implicit in the leases. Therefore, it uses its relevant incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific estimates.

The Group's lease liabilities amounted to P225,664 as at December 31, 2019 (Notes 26, 27, 30 and 31).

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in TSML and TGT as joint ventures (Note 9).

Adequacy of Tax Liabilities. 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.

Classification of Financial Instruments. The Group exercises judgments in classifying financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 31.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 33).

Estimates and Assumptions

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

Assessment of ECL on Trade Receivables. The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables for at least two years. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade receivables is not material because substantial amount of trade receivables are normally collected within one year. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Trade receivables written-off amounted to P131,231 in 2019. The allowance for impairment losses on trade receivables amounted to P217,100 and P368,952 as at December 31, 2019 and 2018, respectively (Notes 6 and 13). The carrying amount of trade receivables amounted to P617,740 and P684,541 as at December 31, 2019 and 2018, respectively (Notes 6, 13, 30 and 31).

Assessment of ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and

- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2019	2018
Other Financial Assets at Amortized Cost			
Cash and cash equivalents	5	P354,131	P224,475
Non-trade receivables - net of allowance for impairment losses* (included under "Trade and other receivables - net" account)	6	933,729	1,058,498
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	13	493	1,326

*Allowance for impairment losses on non-trade receivables amounted to P142,150 and P141,540 as at December 31, 2019 and 2018, respectively.

Variable Consideration under Revenue. Revenue from sales is recognized based on the price specified in the contract, net of the estimated volume discounts and returns. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A provision for sales discount is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made through cash on delivery or with credit terms of 30 to 60 days, which is consistent with market practice.

It is the Group's policy to sell its products to the customer with a right of return. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 8, 9, 10, 11, 12, 15, 28, 30 and 31.

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

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

The write-down of inventories amounted to P398,288 and P488,573 as at December 31, 2019 and 2018, respectively (Note 7).

The carrying amount of inventories amounted to P6,113,043 and P3,897,939 as at December 31, 2019 and 2018, respectively (Note 7).

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

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

There are no changes in the estimated useful lives of property, plant and equipment and deferred containers as at December 31, 2019 and 2018.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P4,748,737 and P4,969,004 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P8,316,621 and P7,817,144 as at December 31, 2019 and 2018, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P196,218 as at December 31, 2019. Accumulated depreciation and amortization of right-of-use assets amounted to P55,066 as at December 31, 2019 (Note 11).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P113,776 and P155,686 as at December 31, 2019 and 2018, respectively. Accumulated amortization of deferred containers amounted to P312,268 and P270,358 as at December 31, 2019 and 2018, respectively (Note 13).

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

There are no changes in the useful lives of computer software as at December 31, 2019 and 2018.

Intangible assets, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P18,313 and P32,633 as at December 31, 2019 and 2018, respectively. Accumulated amortization of intangible assets amounted to P73,749 and P99,975 as at December 31, 2019 and 2018, respectively (Note 13).

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

The carrying amount of goodwill amounted to P126,863 as at December 31, 2019 and 2018 (Note 12).

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

Deferred tax assets amounted to P567,944 and P606,005 as at December 31, 2019 and 2018, respectively (Note 17).

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

Accumulated impairment losses on investments in joint ventures, property, plant and equipment and idle assets amounted to P773,545 and P495,138 as at December 31, 2019 and 2018, respectively (Notes 9, 10 and 13).

The combined carrying amounts of investments in joint ventures, property, plant and equipment, right-of-use assets, deferred containers, intangible assets with finite useful lives and idle assets amounted to P4,827,407 and P5,283,175 as at December 31, 2019 and 2018 respectively (Notes 9, 10, 11 and 13).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 28 to the consolidated financial statements and include discount rate and salary increase rate.

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

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

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

The present value of defined benefit retirement obligation amounted to P1,313,543 and P963,467 as at December 31, 2019 and 2018, respectively (Note 28).

Asset Retirement Obligation. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined that there are no significant ARO as at December 31, 2019 and 2018.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2019	2018
Cash in banks and on hand		P234,631	P132,271
Short-term investments		119,500	92,204
	30, 31	P354,131	P224,475

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

Interest income earned from cash in banks and short-term investments amounted to P12,214, P3,978 and P2,204 in 2019, 2018 and 2017, respectively.

6. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2019	2018
Trade:			
Third parties		P725,394	P925,554
Related parties	26	1,941	6,037
Non-trade:			
Third parties		284,029	349,942
Related parties	26	791,850	850,096
		1,803,214	2,131,629
Less allowance for impairment losses		251,745	388,590
	30, 31	P1,551,469	P1,743,039

Trade receivables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade receivables from third parties consist of the following: (i) receivable from employees amounting to P18,439 and P24,996 as at December 31, 2019 and 2018, respectively; (ii) sale of raw materials amounting to P88,643 and P131,314 as at December 31, 2019 and 2018; (iii) tax certificate receivables amounting to P39,500 and P37,715 as at December 31, 2019 and 2018, respectively; (iv) insurance claims amounting to P29,304 and P104,659 as at December 31, 2019 and 2018, respectively; and (v) miscellaneous receivables amounting to P108,143 and P51,258 as at December 31, 2019 and 2018, respectively. These are generally collectible on demand.

The movements in allowance for impairment losses are as follows:

	Note	2019	2018
Balance at beginning of year		P388,590	P387,590
Charges for the year	21	1,764	1,000
Amounts written off	30	(131,231)	-
Reclassification to noncurrent receivables	13	(7,114)	-
Reversal of impairment loss	25	(264)	-
Balance at end of year	4	P251,745	P388,590

The reversal of impairment loss amounting to P264 is included as part of “Others” under “Other Income” account in the consolidated statements of income in 2019.

7. Inventories

Inventories consist of:

	2019	2018
At net realizable value:		
Finished goods	P3,924,864	P1,245,241
Materials and supplies	2,188,179	2,652,698
	P6,113,043	P3,897,939

The cost of finished goods amounted to P4,008,364 and P1,328,741 as at December 31, 2019 and 2018, respectively.

The cost of materials and supplies amounted to P2,502,967 and P3,057,771 as at December 31, 2019 and 2018, respectively.

The amount of inventories recognized as expense amounted to P10,579,541 P9,120,229 and P7,278,069 in 2019, 2018 and 2017, respectively (Note 19).

The write-down of inventories to net realizable value amounted to P25,500 and P179,052 in 2018 and 2017, respectively (Note 19). The Group has written off inventories amounting to P90,285 and P57,063 in 2019 and 2018, respectively.

The accumulated amount of write-down of inventories amounted to P398,288 and P488,573 as at December 31, 2019 and 2018, respectively (Note 4).

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2019	2018
Prepaid taxes		P1,040,221	P1,031,270
Derivative assets	30, 31	7,373	1,806
Others	26	33,129	39,623
		P1,080,723	P1,072,699

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

Others include amounts owed by related party amounting to P330 and P1,438 as at December 31, 2019 and 2018, respectively (Note 26).

The methods and assumptions used to estimate the fair value of derivative assets are discussed in Note 31.

9. Investments in Joint Ventures

a. TSML

GSMI, through GSMIL, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which the Group owns 44.9% effective ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

b. TGT

The Group also has an existing 44.9% effective ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

The details of the Group's investments in joint ventures which are accounted for using the equity method are as follows:

TSML	2019	2018	2017
Current assets (including cash and cash equivalents - 2019: P285,214; 2018: P252,313 and 2017: P233,491)	P986,335	P866,695	P845,920
Noncurrent assets	1,179,087	1,253,049	1,319,986
Current liabilities (including financial liabilities - 2019: P1,342,289; 2018: P1,274,586 and 2017: P1,334,058)	(1,492,064)	(1,324,596)	(1,393,982)
Noncurrent liabilities (including financial liabilities)	(1,283)	(394)	(676)
Net assets	672,075	794,754	771,248
Percentage of ownership	44.9%	44.9%	44.9%
Amount of investment in joint venture	P301,762	P356,845	P346,290
Carrying amount of investment in joint venture - net	P57,963	P280,413	P346,290

TSML	2019	2018	2017
Sales	P1,341,509	P1,412,831	P1,570,655
Cost of sales (including depreciation - 2019: P141,420; 2018: P134,361 and 2017: P124,910)	(1,346,731)	(1,295,908)	(1,463,506)
Operating expenses (including depreciation - 2019: P5,450; 2018: P5,274 and 2017: P6,330)	(95,723)	(83,877)	(884,247)
Other charges (including interest expense - 2019: P45,628; 2018: P48,157 and 2017: P52,419)	(56,645)	(47,274)	(52,476)
Net loss	(157,590)	(14,228)	(829,574)
Percentage of ownership	44.9%	44.9%	44.9%
Share in net loss	(70,758)	(6,388)	(372,479)
Share in other comprehensive income	15,677	16,943	66,932
Total comprehensive income (loss)	(P55,081)	P10,555	(P305,547)

TGT	2019	2018	2017
Current assets (including cash and cash equivalents - 2019: P7,316; 2018: P11,899 and 2017: P9,610)	P22,651	P26,814	P24,628
Noncurrent assets	1,218	143	159
Current liabilities	(1,011,184)	(956,565)	(904,153)
Noncurrent liabilities	(1,215)	(813)	(595)
Net liabilities	(988,530)	(930,421)	(879,961)
Percentage of ownership	44.9%	44.9%	44.9%
Carrying amount of investment in joint venture	(P443,850)	(P417,759)	(P395,102)

TGT	2019	2018	2017
Sales	P82,353	P89,643	P114,082
Cost of sales	(69,426)	(77,205)	(98,253)
Operating expenses (including depreciation - 2019: P3; 2018: P1 and 2017: P10)	(21,686)	(17,100)	(16,783)
Other income	211	43	169
Net loss	(8,548)	(4,619)	(785)
Percentage of ownership	44.9%	44.9%	44.9%
Share in net loss	(3,838)	(2,074)	(352)
Share in other comprehensive loss	(17,392)	(22,657)	(39,679)
Total comprehensive loss	(P21,230)	(P24,731)	(P40,031)

The recoverable amount of investment in TSML has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. The determined growth rate is 2%. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections is 9% in 2019 and 2018. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The Group assessed the recoverable amount of TSML and the result of such assessment was that the carrying amount is higher than its recoverable amount. The difference between the carrying amount and the proportionate share in the net assets of TSML pertains to the impairment loss recognized amounting to P167,367 and P76,432 in 2019 and 2018, respectively, included as part of "Equity in net losses of joint ventures" account, in the consolidated statements of income.

The recoverable amount of investment in TSML has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

The Group discontinued recognizing its share in the net liabilities of TGT since the cumulative losses including the share in other comprehensive loss already exceed the cost of investment. If TGT reports profits subsequently, the Group resumes recognizing its share of those profits after its share of the profits equals the share of net losses not recognized. Unrecognized share in net liabilities amounted to P443,850 and P417,759 as at December 31, 2019 and 2018, respectively.

10. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Other Equipment	Leasehold Improvements	Capital Projects in Progress	Total
Cost								
January 1, 2018	P783,880	P2,100,783	P281,351	P8,323,736	P854,575	P156,806	P82,892	P12,584,023
Additions	5,203	33,443	41,364	90,532	51,914	-	51,346	273,802
Disposals/retirement	-	-	(12,826)	(61,509)	(1,274)	-	-	(75,609)
Reclassifications	66	5,261	7	53,361	14,405	33	(69,201)	3,932
December 31, 2018	789,149	2,139,487	309,896	8,406,120	919,620	156,839	65,037	12,786,148
Additions	1,325	38,646	59,386	87,117	46,451	7,857	145,849	386,631
Disposals/retirement	-	-	(16,161)	(62,740)	(32,354)	-	-	(111,255)
Reclassifications	1,976	(4,103)	1,092	45,576	3,417	(418)	(43,706)	3,834
December 31, 2019	792,450	2,174,030	354,213	8,476,073	937,134	164,278	167,180	13,065,358
Accumulated Depreciation and Amortization								
January 1, 2018	192,357	1,038,360	195,071	5,096,612	712,535	43,972	-	7,278,907
Depreciation and amortization	6,577	73,119	25,385	447,399	52,342	6,441	-	611,263
Disposals/retirement	-	-	(10,243)	(61,509)	(1,274)	-	-	(73,026)
Reclassifications	-	-	-	(491)	491	-	-	-
December 31, 2018	198,934	1,111,479	210,213	5,482,011	764,094	50,413	-	7,817,144
Depreciation and amortization	11,117	75,146	31,610	418,266	67,573	6,706	-	610,418
Disposals/retirement	-	-	(15,881)	(62,707)	(32,353)	-	-	(110,941)
Reclassifications	757	(3,331)	-	2,861	(480)	193	-	-
December 31, 2019	210,808	1,183,294	225,942	5,840,431	798,834	57,312	-	8,316,621
Accumulated Impairment Losses								
December 31, 2018 and 2019	-	-	-	307,600	-	-	-	307,600
Carrying Amount								
December 31, 2018	P590,215	P1,028,008	P99,683	P2,616,509	P155,526	P106,426	P65,037	P4,661,404
December 31, 2019	P581,642	P990,736	P128,271	P2,328,042	P138,300	P106,966	P167,180	P4,441,137

The accumulated impairment losses of unutilized machinery and equipment amounted to P307,600 as at December 31, 2019 and 2018.

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

The fair value of the distillation equipment has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The Group sold transportation equipment for P1,846, P3,205 and P362 in 2019, 2018 and 2017, respectively. Accordingly, the Group recognized gains amounting to P1,564, P625 and P362, included as part of "Gain (loss) on disposal/retirement of property and equipment" account in the consolidated statements of income in 2019, 2018, and 2017, respectively.

The carrying amount of certain property and equipment retired from use amounted to P32, P3 and P2,459 as at December 31, 2019, 2018, and 2017, respectively, and accordingly recognized a loss for the same amount, included as part of "Gain (loss) on disposal/retirement of property and equipment" account in the consolidated statements of income.

Total depreciation and amortization recognized in the consolidated statements of income amounted to P610,418, P611,263 and P572,452 in 2019, 2018 and 2017, respectively (Notes 19, 20, 21 and 22). These amounts include annual amortization of capitalized interest amounting to P7,223, P12,950 and P12,804, in 2019, 2018 and 2017, respectively.

The Group has interest amounting to P3,834, P3,932 and P1,455 which was capitalized to machinery and equipment in 2019, 2018 and 2017, respectively (Note 24). The capitalization rates used to determine the amount of interest eligible for capitalization were 7.50%, 5.16%, and 3.54% in 2019, 2018 and 2017 respectively. The unamortized capitalized borrowing costs amounted to P22,408 and P25,797 as at December 31, 2019 and 2018, respectively.

11. Right-of-Use Assets

The movement in right-of-use assets are as follows:

	Note	Land and Land Improvements	Buildings and Improvements	Total
Cost				
Adjustment due to adoption of PFRS 16	3	P54,687	P170,752	P225,439
Additions	27	-	25,845	25,845
December 31, 2019		54,687	196,597	251,284
Accumulated Depreciation and Amortization				
Depreciation and amortization	22	14,894	40,172	55,066
December 31, 2019		14,894	40,172	55,066
Carrying Amount December 31, 2019		P39,793	P156,425	P196,218

The Group recognized right-of-use assets for leases of office space, warehouse, factory facilities and parcels of land. The leases typically run for a period of 1 to 11 years. Some leases contain an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Group (Note 27).

12. Goodwill

GSML acquired 100% of the outstanding capital stock of EPSBPI in 2012. EPSBPI, which is considered a cash-generating unit, is a company primarily engaged in the manufacturing and bottling of alcoholic and non-alcoholic beverages. The acquisition resulted in the recognition of goodwill amounting to P226,863.

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. The determined growth rate is 4%. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections is 9% in 2019 and 2018. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. As a result of decline in operations resulting in lower sales forecast compared with previous years, the Group recognized impairment loss amounting to P100,000 in 2015. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

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

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

- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

13. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2019	2018
Deferred containers - net		P113,776	P155,686
Intangible assets - net		18,313	32,633
Noncurrent receivables and deposits - net	26, 30, 31	493	1,326
Others		37,149	184,003
		P169,731	P373,648

The movements in deferred containers are as follows:

	<i>Note</i>	2019	2018
Cost			
December 31, 2019 and 2018		P426,044	P426,044
Accumulated Amortization			
Balance at beginning of year		270,358	228,448
Amortization	22	41,910	41,910
Balance at end of year		312,268	270,358
Carrying Amount		P113,776	P155,686

Amortization of deferred containers, included as part of "General and administrative expenses" account in the consolidated statements of income, amounted to P41,910, P41,910, and P41,938 in 2019, 2018 and 2017, respectively (Notes 21 and 22).

The movements in intangible assets pertaining to computer software are as follows:

	<i>Note</i>	2019	2018
Cost			
Balance at beginning of year		P132,608	P121,075
Additions		1,504	11,541
Retirement		(42,050)	(8)
Balance at end of year		92,062	132,608
Accumulated Amortization			
Balance at beginning of year		99,975	81,716
Amortization	22	15,824	18,267
Retirement		(42,050)	(8)
Balance at end of year		73,749	99,975
Carrying Amount		P18,313	P32,633

Amortization expense, included as part of “General and administrative expenses” account in the consolidated statements of income, amounted to P15,824, P18,267, and P16,465 in 2019, 2018 and 2017, respectively (Notes 21 and 22).

The cost of computer software fully-amortized and retired from use amounted to P42,050 and P8 as at December 31, 2019 and 2018, respectively.

Noncurrent receivables and deposits - net includes: (i) security deposits amounting to P493 and P1,178 as at December 31, 2019 and 2018, respectively (Note 26), (ii) advance rental amounting to P148 as at December 31, 2018 (Note 26), (iii) trade receivables referred to legal and receivables from terminated dealers amounting to P107,505 and P121,902 as at December 31, 2019 and 2018, respectively and (iv) non-trade receivables amounting to P41,743 as at December 31, 2019 and 2018. Allowance for impairment loss amounting to P149,248 and P163,645 is recognized by the Group as at December 31, 2019 and 2018, respectively.

The movements in allowance for impairment losses are as follows:

	Note	2019	2018
Balance at beginning of year		P163,645	P163,645
Reversals	25	(21,511)	-
Reclassification from current receivables	6	7,114	-
Balance at end of year		P149,248	P163,645

“Others” is composed of: (i) input taxes on the acquisition of capitalizable assets amounting to P6,421 and P10,003 as at December 31, 2019 and 2018, respectively; (ii) advances to suppliers amounting to P30,515 and P20,961 as at December 31, 2019 and 2018, respectively and (iii) advances for a project pertaining to unassembled vacuum distillation equipment that is temporarily put on hold amounting to nil and P153,039 as at December 31, 2019 and 2018, respectively, net of accumulated allowance for impairment losses amounting to P222,146 and P111,106 as at December 31, 2019 and 2018, respectively (Note 25), and others amounting to P213 as at December 31, 2019.

The recoverable amount of the unassembled vacuum distillation equipment was determined by an independent property appraiser having appropriate recognized professional qualifications and recent experience in the category of the property being valued. The fair value of the equipment being appraised was determined using the replacement cost model. This approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices of materials, labor, contractor's overhead, profit and fees, and all other attendant's costs associated with its acquisition and installation in place.

The fair value of the equipment has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

14. Notes Payable

This account consists of unsecured short-term peso-denominated borrowings obtained from local banks for working capital requirements. These loans mature in three months or less and bear annual interest rates ranging from 4.75% to 6.88% and 2.00% to 7.20% in 2019 and 2018, respectively.

Changes in liabilities arising from financing activities are as follows:

	2019	2018
Balance at beginning of year	P2,476,100	P5,532,340
Changes from Financing Cash Flows		
Proceeds from borrowings	7,714,000	38,230,380
Payments of borrowings	(8,671,100)	(41,286,620)
Total Changes from Financing Cash Flows	(957,100)	(3,056,240)
Balance at end of year	P1,519,000	P2,476,100

Notes payable include interest-bearing amounts payable to a related party amounting to P857,000 and P522,100 as at December 31, 2019 and 2018, respectively (Note 26).

Interest expense on notes payable to related parties amounted to P1,831, P639 and P5,798 in 2019, 2018 and 2017, respectively (Note 26).

Interest expense on notes payable recognized in the consolidated statements of income amounted to P49,435, P169,771 and P236,695 in 2019, 2018 and 2017, respectively (Note 24).

The Group's exposure to interest rate and liquidity risks are discussed in Note 30.

15. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	2019	2018
Trade:			
Third parties		P2,963,602	P2,013,020
Related parties	26	1,171,683	625,257
Non-trade:			
Third parties		72,178	71,164
Related parties	26	879	858
Derivative liabilities	30, 31	160	648
	30, 31	P4,208,502	P2,710,947

Trade payables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade payables to third parties consist of accrued vacation and sick leave, payroll, interest and dividends.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 31.

16. Long-term Debt

Long-term debt consists of:

	Note	2019	2018
Fixed interest rate with maturities up to 2023		P876,755	P992,903
Less current maturities		233,791	116,148
	30, 31	P642,964	P876,755

The amount represents drawdown by GSML on September 24, 2018 from its five-year credit facility with a local bank dated August 13, 2018 amounting to P1,000,000. The loan is carried at amortized cost and payable in equal quarterly installments commencing in September 2019. The proceeds were used to refinance existing short-term obligations.

Unamortized debt issue costs amounted to P5,598 and P7,097 as at December 31, 2019 and 2018, respectively.

The Company is in compliance with the covenants of the debt agreement as at December 31, 2019 and 2018, respectively (Note 30).

Changes in liabilities arising from financing activities and amortization of debt issue cost are as follows:

	2019	2018
Balance at beginning of year	P992,903	P114,285
Changes from Financing Cash Flows		
Proceeds from borrowings	-	992,500
Payments of borrowings	(117,647)	(114,285)
Total Changes from Financing Cash Flows	(117,647)	878,215
Amortization of debt issue cost	1,499	403
Balance at end of year	P876,755	P992,903

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2020	P235,294	P1,503	P233,791
2021	235,294	1,499	233,795
2022	235,294	1,499	233,795
2023	176,471	1,097	175,374
Total	P882,353	P5,598	P876,755

Interest expense on existing and settled long-term debt amounted to P82,067, P24,634 and P5,616 in 2019, 2018 and 2017, respectively (Note 24).

Contractual terms of the Group's interest-bearing loans and exposure to interest rate and liquidity risks are discussed in Note 30.

17. Income Taxes

The components of income tax expense are shown below:

	2019	2018	2017
Current	P828,367	P520,669	P161,401
Deferred	121,187	(9,950)	184,804
	P949,554	P510,719	P346,205

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

2019	Balance at January 1	Adjustment Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
NOLCO	P441	P -	385	P -	P826
MCIT	45	-	9	-	54
Provision for impairment losses	317,732	-	(95,307)	-	222,425
Equity reserve for retirement plan	103,493	-	-	54,835	158,328
Allowance for write-down of inventories	146,572	-	(27,085)	-	119,487
Past service costs	57,974	-	12,513	-	70,487
Leases	-	28,291	6,509	-	34,800
Various accruals	18,259	-	1,324	-	19,583
Unrealized foreign exchange loss - net	157	-	85	-	242
Derivative liabilities - net	(347)	-	(1,816)	-	(2,163)
Unamortized capitalized borrowing costs	(7,739)	-	1,017	-	(6,722)
Net defined benefit retirement surplus	(30,582)	-	(18,821)	-	(49,403)
	P606,005	P28,291	(P121,187)	P54,835	P567,944

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
NOLCO	P5,989	(P5,548)	P -	P441
MCIT	5,051	(5,006)	-	45
Provision for impairment losses	290,218	27,514	-	317,732
Equity reserve for retirement plan	180,576	-	(77,083)	103,493
Allowance for write-down of inventories	156,041	(9,469)	-	146,572
Past service costs	45,951	12,023	-	57,974
Various accruals	19,005	(746)	-	18,259
Unrealized foreign exchange loss - net	64	93	-	157
Derivative liabilities - net	172	(519)	-	(347)
Unamortized capitalized borrowing costs	(10,444)	2,705	-	(7,739)
Net defined benefit retirement surplus	(19,485)	(11,097)	-	(30,582)
	P673,138	P9,950	(P77,083)	P606,005

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

	2019	2018
Adjustment due to adoption of PFRS 16	P28,291	P -
Amount charged to profit or loss	(121,187)	9,950
Amount charged to other comprehensive income	54,835	(77,083)
	(P38,061)	(P67,133)

As at December 31, 2019, the NOLCO of the Group that can be claimed as deduction from future taxable income are as follows:

Year Incurred	NOLCO	Expired	Utilized	Balance	Expiry Year
2017	P19,963	P -	(P19,963)	P -	2020
2018	1,470	-	-	1,470	2021
2019	1,283	-	-	1,283	2022
	P22,716	P -	(P19,963)	P2,753	

As at December 31, 2019, the MCIT of the Group that can be claimed as deduction from corporate income tax due are as follows:

Year Incurred	MCIT	Expired	Utilized	Balance	Expiry Year
2017	P21	P -	P -	P21	2020
2018	24	-	-	24	2021
2019	9	-	-	9	2022
	P54	P -	P -	P54	

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

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(0.05%)	(0.03%)	(0.02%)
Others	6.27%	2.69%	6.52%
Effective income tax rate	36.22%	32.66%	36.50%

18. Equity

a. Capital Stock

Common Shares

The Company has 460,000,000 authorized common shares with par value of P1.00 per share.

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

The Company has a total of 645 and 683 stockholders as at December 31, 2019 and 2018, respectively.

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

	2019	2018
Issued shares	345,625,332	345,625,332
Less treasury shares	59,297,491	59,297,491
Outstanding shares	286,327,841	286,327,841

Preferred Shares

The Company has 100,000,000 authorized preferred shares with par value of P1.00 per share.

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

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

	2019	2018
Issued shares	53,437,585	53,437,585
Less treasury shares	20,650,700	20,650,700
Outstanding shares	32,786,885	32,786,885

b. Treasury Shares

Treasury shares consist of:

	2019	2018	2017
Common	59,297,491	59,297,491	59,297,491
Preferred	20,650,700	20,650,700	20,650,700
	79,948,191	79,948,191	79,948,191

There were no movements in the number of shares held in treasury in 2019, 2018 and 2017.

c. Unappropriated Retained Earnings

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net losses of joint ventures amounting to P471,609, P90,426 and P63,031 in 2019, 2018 and 2017, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The unappropriated retained earnings of the Group is restricted in the amount of P2,669,973 in 2019, 2018 and 2017, representing the cost of common and preferred shares held in treasury.

d. Appropriated Retained Earnings

As at December 31, 2019 and 2018, the Company's BOD approved the appropriation of retained earnings amounting to P2,500,000 for the purpose of capital investment for the expansion of the plant facilities, including but not limited to equipment rehabilitation, to accommodate new product line and the increase in volume requirements until 2020.

e. Dividend Declaration

The BOD of the Group approved the declaration and payment of the following cash dividends to common and preferred stockholders in 2019:

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	March 13, 2019	March 28, 2019	April 15, 2019	P0.250
	May 8, 2019	May 24, 2019	June 14, 2019	0.250
	August 7, 2019	August 30, 2019	September 16, 2019	0.250
	November 6, 2019	November 22, 2019	December 16, 2019	0.250
Preferred	March 13, 2019	March 28, 2019	April 15, 2019	0.375
	May 8, 2019	May 24, 2019	June 14, 2019	0.375
	August 7, 2019	August 30, 2019	September 16, 2019	0.375
	November 6, 2019	November 22, 2019	December 16, 2019	0.375

In addition, on March 13, 2019, the BOD approved the declaration and payment of cash dividends in arrears of seven years (from 2012 to 2018) and one quarter in 2002 amounting to P356,557, paid on April 15, 2019 to the holders of preferred shares as of record date, March 28, 2019.

19. Cost of Sales

Cost of sales consist of:

	Note	2019	2018	2017
Inventories	7	P10,579,541	P9,120,229	P7,278,069
Taxes and licenses		8,878,545	7,547,596	6,689,332
Utilities and supplies		480,924	526,945	470,506
Depreciation and amortization	10, 11, 22	341,127	347,658	322,922
Personnel	23, 28	318,459	289,939	235,035
Repairs and maintenance		299,408	248,731	174,422
Outside services		119,830	109,399	137,063
Tolling fees		57,958	72,624	63,609
Rent	27	14,425	43,730	40,836
Freight, trucking and handling		9,574	462	5,863
Insurance		4,127	2,249	2,699
Write-down of inventories to net realizable value	7	-	25,500	179,052
Others		23,390	24,826	25,244
		P21,127,308	P18,359,888	P15,624,652

20. Selling and Marketing Expenses

Selling and marketing expenses consist of:

	<i>Note</i>	2019	2018	2017
Advertising and promotions		P1,382,550	P1,384,984	P1,083,255
Delivery and marketing		652,424	602,425	518,553
Personnel	23, 28	345,484	281,217	249,733
Outside services		85,688	73,082	66,147
Utilities and supplies		50,298	49,380	40,474
Travel and transportation		47,317	37,199	35,467
Rent	27	46,730	39,817	37,526
Depreciation and amortization	10, 11, 22	45,900	32,013	30,492
Research		40,145	287	69
Repairs and maintenance		38,892	29,726	38,924
Corporate special program		23,776	19,920	21,954
Others		12,308	10,290	10,120
		P2,771,512	P2,560,340	P2,132,714

21. General and Administrative Expenses

General and administrative expenses consist of:

	<i>Note</i>	2019	2018	2017
Personnel	23, 28	P931,314	P913,723	P747,134
Depreciation and amortization	10, 11, 13, 22	336,191	291,769	277,441
Outside services	26	302,293	299,144	280,843
Taxes and licenses		250,056	177,229	136,048
Repairs and maintenance		148,773	109,915	92,685
Insurance		120,029	62,310	59,405
Corporate special program		69,493	45,051	33,860
Utilities and supplies		44,713	45,568	42,545
Travel and transportation		36,007	39,190	28,524
Research		27,794	47,813	36,665
Rent	27	16,282	42,145	39,723
Provision for impairment losses	6	1,764	1,000	44,653
Others		1,526	8,194	8,175
		P2,286,235	P2,083,051	P1,827,701

22. Depreciation and Amortization

Depreciation and amortization consist of:

	Note	2019	2018	2017
Property, plant and equipment	10	P610,418	P611,263	P572,452
Right-of-use assets	11	55,066	-	-
Deferred containers	13	41,910	41,910	41,938
Intangible assets	13	15,824	18,267	16,465
		P723,218	P671,440	P630,855

Depreciation and amortization are distributed as follows:

	Note	2019	2018	2017
Cost of sales	19	P341,127	P347,658	P322,922
Selling and marketing expenses	20	45,900	32,013	30,492
General and administrative expenses	21	336,191	291,769	277,441
		P723,218	P671,440	P630,855

23. Personnel Expenses

Personnel expenses consist of:

	Note	2019	2018	2017
Salaries and wages		P945,536	P808,853	P751,362
Other employee benefits		588,983	573,285	389,249
Retirement costs	28	60,738	102,741	91,291
		P1,595,257	P1,484,879	P1,231,902

Personnel expenses are distributed as follows:

	Note	2019	2018	2017
Cost of sales	19	P318,459	P289,939	P235,035
Selling and marketing expenses	20	345,484	281,217	249,733
General and administrative expenses	21	931,314	913,723	747,134
		P1,595,257	P1,484,879	P1,231,902

24. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2019	2018	2017
Interest on long-term debt	16	P82,067	P24,634	P5,616
Interest on notes payable	14	49,435	169,771	236,695
Interest on lease liabilities	27	20,591	-	-
Interest on defined benefit obligation - net	28	13,629	-	-
Other financing charges	16	7,713	30,185	34,659
Capitalized borrowing costs	10	(3,834)	(3,932)	(1,455)
		P169,601	P220,658	P275,515

Interest on long-term debt includes interest on unsecured, long-term interest-bearing loan of EPSBPI amounting to P2,221 and P5,616 in 2018 and 2017, respectively. EPSBPI settled the loan on September 28, 2018.

Amortization of debt issue costs included in "Other financing charges" amounted to P1,499 and P403 in 2019 and 2018, respectively (Note 16).

25. Other Income (Charges)

Other income (charges) consist of:

	Note	2019	2018	2017
Tolling fees		P130,796	P95,386	P62,363
Sale of scrap materials		38,160	28,234	26,030
Net derivative gain (loss)	31	33,221	(10,250)	(7,946)
Gain on miscellaneous items	6	21,511	-	-
Rent income	27	444	186	240
Net unrealized foreign exchange losses	30	(806)	(525)	(215)
Provision for impairment losses	13	(111,040)	(111,106)	-
Others		5,476	8,302	565
		P117,762	P10,227	P81,037

Tolling fees are net of cost amounting to P92,708, P56,659 and P43,216 in 2019, 2018 and 2017, respectively.

Provision for impairment loss pertains to impairment of unassembled vacuum distillation equipment that is temporarily put on hold (Note 13).

Gain on miscellaneous items pertains to collection of long-term receivable previously provided amounting to P21,511 in 2019.

26. Related Party Disclosures

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

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

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	2019	P -	P -	P6	P -	On demand;	Unsecured;
	2018	5	-	5	-	non-interest bearing	no impairment
	2017	-	-	-	-		
Intermediate Parent Company	2019	109,642	255,044	5,746	69,005	On demand;	Unsecured;
	2018	20,960	235,913	5,396	7,565	non-interest bearing	no impairment
	2017	6,554	235,725	4,435	37,087		
Parent Company	2019	55	-	5	-	On demand;	Unsecured;
	2018	6	-	6	-	non-interest bearing	no impairment
	2017	-	-	-	-		
Under Common Control	2019	461,483	6,119,006	156,299	1,197,133	On demand;	Unsecured;
	2018	474,674	4,893,263	229,841	554,213	non-interest bearing	no impairment
	2017	228,178	3,822,255	169,778	646,770		
Joint Venture	2019	19,432	595,431	632,732	39,136	On demand;	Unsecured;
	2018	20,703	1,036,147	623,649	64,337	interest bearing	no impairment
	2017	21,785	951,997	688,026	94,059		
Associates of the Parent Company	2019	-	-	-	857,000	3 months; interest bearing	Unsecured;
	2018	-	-	-	522,100		no impairment
	2017	-	-	-	2,504,900		
Total	2019	P590,612	P6,969,481	P794,788	P2,162,274		
Total	2018	P516,348	P6,165,323	P858,897	P1,148,215		
Total	2017	P256,517	P5,009,977	P862,239	P3,282,816		

- The Group, in the normal course of business, has significant transactions with related parties pertaining to purchases of containers and other packaging materials and sale of liquor and by-products. The sales to and purchases from related parties are made at normal market prices. There have been no guarantees provided or received for any amounts owed by and owed to related parties.
- The Group has entered into various lease agreements with related parties as a lessor and lessee (Notes 11 and 27).

Upon adoption of PFRS 16 on January 1, 2019, the Group recognized right-of-use assets and lease liabilities to related parties amounted to P124,511 and P137,442, respectively. Right-of-use assets and lease liabilities to related parties amounted to P114,775 and P132,712, respectively, as at December 31, 2019. Rent expense to and rent income from related parties for short-term leases and leases of low-value assets recognized in the consolidated statements of income amounted to P5,774 and P41, respectively, in 2019. Amounts owed to and from related parties pertaining to these leases amounted to P132,712 and P174, respectively, as at December 31, 2019.

Prior to adoption of PFRS 16, the Group recognized rent expense to related parties in the consolidated statements of income amounting to P13,380 and P12,918 in 2018 and 2017, respectively. Rent income from related parties recognized in the consolidated statements of income amounted to P186 and nil in 2018 and 2017, respectively. Amounts owed to and from related parties pertaining to these leases amounted to P1,155 and P1,150, respectively, as at December 31, 2018.

- c. Management fees paid to SMC amounting to P186,146, P180,942 and P179,525 in 2019, 2018 and 2017, respectively, are included in "Outside services" account under "General and administrative expenses" (Note 21).
- d. Security deposits with related parties under common control amounted to P493, and P1,178 as at December 31, 2019 and 2018, respectively, included as part of "Noncurrent receivables and deposits-net" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 13).
- e. Advance rentals with related parties under common control amounted to P148 as at December 31, 2018 (Note 13).
- f. TSML executed various promissory notes in favor of the Company. The details of which are as follows:
 - o Principal sum of THB250,000 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
 - o Principal sum of THB50,000 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
 - o Principal sum of THB25,000 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
 - o Principal sum of THB75,000 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
 - o Principal sum of THB75,000 together with interest of 3.0% per annum, which interest shall accrue on April 7, 2011.

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

TSML made partial payments on the promissory notes amounting to THB40,000 in 2018.

The receivables from TSML are included as part of "Non-trade receivables from related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 6).

Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to P19,380, P20,703 and P21,785 in 2019, 2018 and 2017, respectively.

- g. Amounts owed to Bank of Commerce are included in "Notes payable" account in the consolidated statements of financial position (Note 14).

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

	Note	2019	2018	2017
Short-term employee benefits		P51,518	P40,885	P56,264
Retirement costs	28	8,417	12,331	11,660
		P59,935	P53,216	P67,924

27. Leasing Agreements

Group as Lessee under PFRS 16

The Group has the following lease agreements:

- The Company leases various warehouse facilities under operating leases. These leases typically run for a period of one year. The Company has the option to renew the lease after the expiration of the lease term.
- EPSBPI has various lease agreements with related parties for the lease of parcels of land located in Ligao City, Albay and Cauayan, Isabela for a period ranging from 3 to 10 years and renewable upon mutual agreement of both parties. Rental fees are payable monthly and subject to 5% escalation every year. On December 18, 2019, EPSBPI has expressed its interest to acquire the leased land in Cauayan, Isabela in which a 20% down payment is to be paid on January 2020.
- In 2011, EPSBPI entered into lease agreements to use various equipment for a period of three years with the option to renew after expiration of the lease term. Rental fees are payable on a monthly basis. In 2016, the lease agreements were extended for periods ranging from nine months to two years.

The future minimum lease payments under non-cancellable leases are as follows:

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Within one year	P84,048	P16,068	P67,980
After one year but not more than five years	100,946	40,736	60,210
More than five years	134,169	36,695	97,474
	P319,163	P93,499	P225,664

The Group recognized interest expense related to these leases amounting to P20,591 in 2019 (Note 24).

Changes in liabilities are as follows:

	2019
Balance at beginning of year	P -
Adjustment due to adoption of PFRS 16	258,893
Balance at beginning of year, as adjusted	258,893
Changes from Financing Cash Flows	
Payments of lease liabilities	(59,074)
Other Changes	
Additions during the year	25,845
Balance at end of year	P225,664

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases and leases of low-value assets amounted to P77,427 and P10 in 2019, respectively (Notes 19, 20 and 21).

The Group had total cash outflows for leases of P136,511 in 2019.

Rent expense is recognized in the following line items in the consolidated statements of income:

	<i>Note</i>	2019
Cost of sales	19	P14,425
Selling and marketing expenses	20	46,730
General and administrative expenses	21	16,282
		P77,437

Group as Lessee under PAS 17

- a. The Company leases various warehouse facilities under operating leases. These leases typically run for a period of one year. The Company has the option to renew the lease after the expiration of the lease term.
- b. EPSBPI has various lease agreements with related parties for the lease of parcels of land located in Ligao City, Albay and Cauayan, Isabela for a period ranging from 2 to 10 years and renewable upon mutual agreement of both parties. Rental fees are payable monthly and subject to 5% escalation every year.
- c. In 2016, the Company renewed various agreements with EPSBPI for the lease of warehouses and performance of warehousing services for a period of two years. (Notes 20 and 26)

Rent expense is recognized in the following line items in the consolidated statements of income:

	<i>Note</i>	2018	2017
Cost of sales	19	P43,730	P40,836
Selling and marketing expenses	20	39,817	37,526
General and administrative expenses	21	42,145	39,723
	4	P125,692	P118,085

Group as Lessor

- a. DBI has a lease agreement with a related party for the lease of land in Taloc, Bago City, Negros Occidental for a period of fifteen years from September 4, 2017 to September 3, 2032. Rental fee amounted to P10 and P8 per month in 2019 and 2018, respectively.
- b. The Company had a lease agreement with a third party for the lease of equipment in Cabuyao, Laguna from January 1, 2019 to December 31, 2019. Rental fee amounted to P30 per month.
- c. EPSBPI had a lease agreement with a third party for the lease of equipment in Ligao, Albay from January 1, 2019 to December 31, 2019. Rental fee amounted to P3 per month.
The future minimum lease receipts under non-cancellable operating leases are as follows:

Operating Leases under PFRS 16	2019
Within one year	P130
After one year but not more than five years	625
After five years	1,598
	P2,353
<hr/>	
Operating Leases under PAS 17	2018
Within one year	P110
After one year but not more than five years	587
After five years	1,765
	P2,462

Rent income recognized in the consolidated statements of income amounted to P444, P186 and P240 in 2019, 2018 and 2017, respectively (Note 25).

28. Retirement Plans

The Company and DBI have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Group pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

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

EPSBPI does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641).

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

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Net Defined Benefit Retirement Liability	
	2019	2018	2019	2018	2019	2018
Balance at beginning of year	P720,431	P700,950	(P963,467)	(P1,237,920)	(P243,036)	(P536,970)
Recognized in Profit or Loss						
Service costs	-	-	(60,738)	(70,876)	(60,738)	(70,876)
Interest expense	-	-	(72,006)	(73,861)	(72,006)	(73,861)
Interest income	58,377	41,996	-	-	58,377	41,996
	58,377	41,996	(132,744)	(144,737)	(74,367)	(102,741)
Recognized in Other Comprehensive Income						
Remeasurements						
Actuarial gains (losses) arising from:						
Experience adjustments	-	-	(212,651)	133,610	(212,651)	133,610
Changes in financial assumptions	-	-	(27,018)	151,889	(27,018)	151,889
Changes in demographic assumptions	-	-	9,328	-	9,328	-
Return on plan assets excluding interest income	47,556	(28,555)	-	-	47,556	(28,555)
	47,556	(28,555)	(230,341)	285,499	(182,785)	256,944
Others						
Contributions	137,105	139,731	-	-	137,105	139,731
Benefits paid	(13,009)	(133,691)	13,009	133,691	-	-
	124,096	6,040	13,009	133,691	137,105	139,731
Balance at end of year	P950,460	P720,431	(P1,313,543)	(P963,467)	(P363,083)	(P243,036)

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

Retirement costs recognized in the consolidated statements of income by GSMI amounted to P52,925, P94,979 and P84,611 in 2019, 2018 and 2017, respectively, while those charged by DBI amounted to P5,856, P7,762 and P6,680 in 2019, 2018 and 2017, respectively and for EPSBPI amounted to P1,957 in 2019 (Note 23).

The retirement costs are recognized in the following line items:

	Note	2019	2018	2017
Cost of sales	19	P15,457	P15,393	P11,066
Selling and marketing expenses	20	15,202	14,039	12,415
General and administrative expenses	21	30,079	73,309	67,810
	23	P60,738	P102,741	P91,291

Retirement liabilities recognized by GSMI amounted to P332,160 and P222,952 as at December 31, 2019 and 2018, respectively, while those recognized by DBI amounted to P27,578 and P20,084 as at December 31, 2019 and 2018, respectively and by EPSBPI amounted to P3,345 as at December 31, 2019.

The carrying amounts of the Group's retirement plan approximate fair values as at December 31, 2019 and 2018.

The Group's plan assets consist of the following:

	In Percentages	
	2019	2018
Investments in marketable securities	40.45	51.59
Investments in pooled funds:		
Fixed income portfolio	29.73	26.62
Stock trading portfolio	7.81	14.83
Others	22.01	6.96
	100.00	100.00

Investments in Marketable Securities

The plan assets include 9,943,285 common shares of the Group with fair market value per share of P26.75 as at December 31, 2018. All shares were disposed in 2019.

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

The Group's Retirement Plans recognized loss on the investment in marketable securities of SMC and its subsidiaries amounting to P21,821 and P5,535 in 2019 and 2018, respectively.

Dividend income from the investment in marketable securities amounted to P9,716 and P1,455 in 2019 and 2018, respectively.

Interest income from the investment in marketable securities amounted to P2,541, P1,038 and P1,062 in 2019, 2018 and 2017, respectively.

Investments in Pooled Funds

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

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

Approximately 13.06% and 9.61% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2019 and 2018, respectively.

Approximately 13.35% and 8.07% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2019 and 2018, respectively.

Others

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

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

The Board of Trustees 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 defined benefit retirement 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 P105,892 to the Retirement Plans in 2020.

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

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement 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) to the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

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

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

	In Percentages	
	2019	2018
Discount rate	5.12 - 5.24	7.38 - 7.47
Salary increase rate	5.00	7.00

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

The weighted average duration of defined benefit retirement obligation is 13.27 years and 10.45 years as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, 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, respectively:

	Defined Benefit Retirement Obligation			
	2019		2018	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P109,319)	P126,796	(P84,130)	P97,704
Salary increase rate	125,801	(110,518)	97,179	85,206

In 2019 and 2018, the Group's transaction relating to the Retirement Plans pertain to the contributions for the period. The Group has no outstanding payables with the plan assets as at December 31, 2019 and 2018.

29. Basic and Diluted Earnings Per Share

Basic and Diluted Earnings Per Share is computed as follows:

	2019	2018	2017
Net income	P1,671,788	P1,053,039	P602,243
Less: Dividends on preferred shares	49,180	49,180	49,180
Net income available to common shares (a)	P1,622,608	P1,003,859	P553,063
Weighted average number of common shares outstanding (in thousands) - basic and diluted (b)	286,328	286,328	286,328
Basic and Diluted Earnings Per Share (a/b)	P5.67	P3.51	P1.93

30. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

The BOD oversees that a sound enterprise risk management framework is in place to effectively identify, monitor, assess and manage key business risks, which will guide the BOD in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

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

The BOD constituted the Audit and Risk Oversight Committee (the “Committee”) to, among others, enhance its oversight capability over the Group’s financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations; and be responsible for the oversight of the Group’s enterprise risk management system to ensure its functionality and effectiveness.

The Committee also has the responsibility to assist the BOD in ensuring that there is an effective and integrated risk management process in place to guide the BOD in arriving at well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. In relation to this, the Committee has the following duties and responsibilities, among others: a.) develop a formal enterprise risk management plan which contains common language or register of risks, well-defined risk management goals, objectives and oversight, uniform processes of assessing risks and developing strategies to manage prioritized risks, designing and implementing risk management strategies, and continuing assessments to improve risk strategies, processes and measures; b.) oversee the implementation of the enterprise risk management plan; c.) evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness; d.) advise the BOD on its risk appetite levels and risk tolerance limits; and e.) review at least annually the Group’s risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Group.

The 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 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. The management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,745 in 2017. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

December 31, 2019	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Fixed Rate						
Philippine peso-denominated	P235,294	P235,294	P235,294	P176,471	P -	P882,353
Interest rate	8.348%	8.348%	8.348%	8.348%	-	-
	P235,294	P235,294	P235,294	P176,471	P -	P882,353

December 31, 2018	<1 Year	1 - 2 Years	>2 - 3 Years	>3 - 4 Years	>4 - 5 Years	Total
Fixed Rate						
Philippine peso-denominated	P117,647	P235,294	P235,294	P235,294	P176,471	P1,000,000
Interest rate	8.348%	8.348%	8.348%	8.348%	8.348%	-
	P117,647	P235,294	P235,294	P235,294	P176,471	P1,000,000

Foreign Currency Risk

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

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

	December 31, 2019		December 31, 2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$26	P1,336	US\$85	P4,485
Trade and other receivables	27	1,370	92	4,823
Foreign currency-denominated monetary assets	US\$53	P2,706	US\$177	P9,308

The Group reported net losses on foreign exchange amounting to P806, P525 and P215 in 2019, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets (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, 2019	50.64
December 31, 2018	52.58
December 31, 2017	49.93

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2019				
Cash and cash equivalents	(P26)	(P18)	P26	P18
Trade and other receivables	(27)	(19)	27	19
	(P53)	(P37)	P53	P37
	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, 2018				
Cash and cash equivalents	(P85)	(P60)	P85	P60
Trade and other receivables	(92)	(64)	92	64
	(P177)	(P124)	P177	P124

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due 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, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P354,131	P354,131	P354,131	P -	P -	P -
Trade and other receivables - net	1,551,469	1,551,469	1,551,469	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	7,373	7,373	7,373	-	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	493	493	-	493	-	-

Forward

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Notes payable	P1,519,000	P1,526,317	P1,526,317	P -	P -	P -
Accounts payable and accrued expenses (excluding derivative liabilities* and deferred rent income**)	4,207,463	4,207,463	4,207,463	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	160	160	160	-	-	-
Long-term debt (including current maturities)	876,755	1,028,177	301,338	281,494	445,345	-
Lease Liabilities (including current portion)	225,664	319,163	84,879	44,712	62,958	126,614

*Derivative liabilities amounted to P160 as at December 31, 2019.

**Deferred rent income amounted to P879 as at December 31, 2019.

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years
Financial Assets					
Cash and cash equivalents	P224,475	P224,475	P224,475	P -	P -
Trade and other receivables - net	1,743,039	1,743,039	1,743,039	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1,806	1,806	1,806	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	1,326	1,326	296	-	1,030
Financial Liabilities					
Notes payable	2,476,100	2,486,977	2,486,977	-	-
Accounts payable and accrued expenses (excluding derivative liabilities*)	2,710,299	2,710,299	2,710,299	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	648	648	648	-	-
Long-term debt (including current maturities)	992,903	1,227,865	199,688	301,338	726,839

*Derivative liabilities amounted to P648 as at December 31, 2018.

Credit Risk

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

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

Trade and Other Receivables and Noncurrent Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base.

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

Credit Quality

In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

The credit quality of financial assets is being managed by the Group using internal credit ratings. Credit quality of the financial assets were determined as follows:

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and non-current receivables and deposits.

Receivables with high probability of delinquency and default were fully provided with allowance for impairment losses.

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

	Note	2019	2018
Cash and cash equivalents (excluding cash on hand)	5	P352,261	P222,339
Trade and other receivables - net	6	1,551,469	1,743,039
Derivative assets	8	7,373	1,806
Noncurrent receivables and deposits - net	13	493	1,326
		P1,911,596	P1,968,510

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

2019					
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired		
Cash and cash equivalents	P352,261	P -	P -	P -	P352,261
Trade and other receivables	1,551,469	-	251,745	-	1,803,214
Derivative assets	-	-	-	7,373	7,373
Noncurrent receivables and deposits	-	493	149,248	-	149,741

2018					
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired		
Cash and cash equivalents (excluding cash on hand)	P222,339	P -	P -	P -	P222,339
Trade and other receivables	1,743,039	-	388,590	-	2,131,629
Derivative assets	-	-	-	1,806	1,806
Noncurrent receivables and deposits	-	1,326	163,645	-	164,971

The aging of receivables is as follows:

December 31, 2019	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current:	P440,172	P40,333	P83,522	P564,027
Past due:				
1 - 30 days	170,483	19,864	22,730	213,077
31 - 60 days	210	29,649	15,734	45,593
61 - 90 days	3,640	25,277	290	29,207
Over 90 days	110,889	168,906	671,515	951,310
	P725,394	P284,029	P793,791	P1,803,214

December 31, 2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current:	P532,687	P147,418	P76,748	P756,853
Past due:				
1 - 30 days	136,383	7,147	34,903	178,433
31 - 60 days	7,112	12,760	57,752	77,624
61 - 90 days	743	5,393	24,699	30,835
Over 90 days	248,629	177,224	662,031	1,087,884
	P925,554	P349,942	P856,133	P2,131,629

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

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

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

Receivables written-off amounted to P131,231 in 2019 (Note 6).

The Group's cash and cash equivalents and derivative assets are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

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

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

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

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

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

The Parent Company is required to comply with the capital requirements under the interest-bearing loan drawn from a local bank starting 2018 (Note 16). The Parent Company has to ensure that its debt-to-equity ratio will not exceed 5.0 and debt service cover ratio will not fall below 1.25 times. The Parent Company complied with the above requirements with a debt-to-equity ratio of 1.00 and 1.13 as at December 31, 2019 and 2018, respectively, and debt service cover ratio of 9.49 and 6.84 as at December 31, 2019 and 2018, respectively.

31. Financial Assets and Financial Liabilities

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P354,131	P354,131	P224,475	P224,475
Trade and other receivables - net	1,551,469	1,551,469	1,743,039	1,743,039
Derivative assets (included under "Prepaid expenses and other current assets" account)	7,373	7,373	1,806	1,806
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	493	493	1,326	1,326
Financial Liabilities				
Notes payable	1,519,000	1,519,000	2,476,100	2,476,100
Accounts payable and accrued expenses (excluding derivative liabilities* and deferred rent income**)	4,207,463	4,207,463	2,710,299	2,710,299
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	160	160	648	648
Long-term debt (including current maturities)	876,755	957,352	992,903	1,029,772
Lease liabilities (including current portion)	225,664	225,664	-	-

*Derivative liabilities amounted to P160 and P648 as at December 31, 2019 and 2018, respectively.

**Deferred rent income amounted to P879 as at December 31, 2019.

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

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

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

Notes Payable and Accounts Payable and Accrued Expenses. The carrying amount of notes payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Lease Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rate used for Philippine peso-denominated loans ranges from 3.20% to 3.92% and 5.73% to 7.03% as at December 31, 2019 and 2018, respectively. The carrying amounts of fixed rate approximate their fair values.

The fair value of lease liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

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

Derivative Instruments Not Designated as Hedges

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$10,174 and US\$7,869 as at December 31, 2019 and 2018, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. The net fair value of these embedded currency forwards amounted to P7,213 and P1,158 as at December 31, 2019 and 2018, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P33,221, (P10,250) and (P7,946) in 2019, 2018 and 2017, respectively (Note 25).

Fair Value Changes on Derivatives

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

	2019	2018
Balance at beginning of year	P1,158	(P573)
Net change in fair value of non-accounting hedges	33,221	(10,250)
	34,379	(10,823)
Less fair value of settled instruments	27,166	(11,981)
Balance at end of year	P7,213	P1,158

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, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P7,373	P7,373	P -	P1,806	P1,806
Financial Liabilities						
Derivative liabilities	-	160	160	-	648	648

The Group has no financial instruments valued based on Level 1 and Level 3 as at December 31, 2019 and 2018. In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

32. Events after the Reporting Date

a. Declaration of Cash Dividends

On March 11, 2020, the BOD declared cash dividends to all preferred and common shareholders of record as of March 27, 2020 amounting to P0.375 per preferred share and P0.25 per common share. Cash dividends for both preferred and common shares are payable on April 15, 2020.

b. Effect of Coronavirus Disease 2019 (COVID-19)

On March 8, 2020, under Proclamation 922, the Office of the President declared a state of public health emergency due to the spread of the COVID-19.

The Group, being engaged in the manufacturing and sale of alcoholic beverages, has been affected by the aforesaid declaration. This resulted in limited business operations in Luzon and in certain parts of the country. Given the restricted mobility and curtailed economic activities, the Group expects to see a decline in sales and profits in the first and second quarter of 2020 due to the drop in consumer spending.

Despite this challenging business environment, the Group does not foresee any going concern issue affecting its business operations. The Group expects the decline in consumption to be temporary and is expected to gradually recover.

The Group has determined that this event is a non-adjusting event. As at March 11, 2020, the estimate of the financial effect to the Group cannot be reliably made yet.

33. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group. No provision was recognized in 2019, 2018 and 2017.

▪ Case Pending with the SEC

Josefina Multi-Ventures Corporation vs. San Miguel Corporation, San Miguel Food and Beverage, Inc. and Ginebra San Miguel Inc.
SEC Case No. 05-18-468

Josefina Multi-Ventures Corporation (the "Petitioner"), one of the stockholders of GSMI, filed a petition against SMC, SMFB and GSMI, docketed as SEC Case No. 05- 18-468 (the "Petition"), questioning the share swap transaction between SMFB and SMC relative, among others to, the transfer of SMC's common shares in GSMI in exchange of SMFB's common shares.

The Petition sought (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock; and, (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

In a decision dated February 19, 2019, the SEC dismissed the Petition and ruled, among others, that the share swap transaction is not subject to the mandatory tender offer rule since there was no acquisition of control between SMC and its subsidiaries SMB and GSMI. The Petitioner filed a Motion for Reconsideration of the said decision, which was denied on May 30, 2019.

The Petitioner filed an Appeal Memorandum dated June 18, 2019 with the SEC En Banc, which is still pending resolution.

- Tax Cases Pending with the Court of Tax Appeals (CTA)

1. *Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue* CTA Case Nos. 8953 and 8954 (Consolidated)
CTA - Third Division

These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P581,708 in Case No. 8953, and P133,551 in Case No. 8954, or in the total amount of P715,259, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from 1 January 2013 up to 31 May 2013 in Case No. 8953, and from 8 January 2013 up to 31 March 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence. The CTA admitted all of GSMI's evidence while the BIR's Formal Offer of Evidence and GSMI's Comment thereto are still under consideration of the CTA.

These cases are still pending resolution with the CTA.

2. *Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue* CTA Case No. 9059
CTA - Second Division

This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26,243, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from 1 June 2013 up to 31 July 2013.

The abovementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2019, the CTA denied the GSMI's Claim from Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said decision, which is still pending resolution.

- Intellectual Property Cases Pending with the Supreme Court (SC)

In a Resolution dated January 14, 2019, the SC Third Division resolved to consolidate all the cases enumerated below. The cases are still pending with the said division of the SC.

1. *Ginebra San Miguel Inc. vs. Director General of the Intellectual Property Office*
G.R. No. 196372
SC - *En Banc*

This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals (CA) affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the "Petition") with the SC. The SC denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the SC *En Banc*. The SC denied GSMI's Motion for Reconsideration with finality, as well as GSMI's Motion to Refer to its Motion for Reconsideration to the SC *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the "Manifestation") and invoked the case of "*League of Cities vs. Commission of Elections*" (G.R. Nos. 176951, 177499 and 178056) to invite the SC *En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the SC *En Banc* Issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter's resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI's Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten (10) days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

This case is still pending with the SC *En Banc*.

2. *Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*
G.R. Nos. 210224 and 219632
SC - Third Division

These cases pertain to GSMI's Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduay Distillers, Inc. (TDI) filed with the Regional Trial Court (RTC), arising from TDI's distribution and sale of its gin product bearing the trademark "Ginebra Kapitan" and use of a bottle design, which general appearance was nearly identical and confusingly similar to GSMI's product. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the CA, due to technicalities, two (2) cases were lodged in the CA: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the CA reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the CA ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The CA likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" has already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the CA also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the CA, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The CA added that "the mere use of the word "GINEBRA" in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product," and that TDI "has designed its bottle and label to somehow make a colourable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review on Certiorari with the SC, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the SC on April 18, 2016.

On October 26, 2016, GSMI filed its Comment TDI's Petition for Review on Certiorari.

These consolidated cases are still pending resolution by the SC.

3. *Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*
G.R. No. 216104
SC - Third Division

This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 covering gin with the IPOP HL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired a secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOP HL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin"; (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like "GINEBRA KAPITAN"; and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

On July 23, 2014, the CA reversed and set aside the IPOP HL's ruling and disapproved the registration of "GINEBRA KAPITAN". The CA ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the SC, which was subsequently consolidated with the case of "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comment on TDI's Petition for Review on Certiorari.

This case is still pending resolution with the SC.

b. *Commitments*

The outstanding purchase commitments of the Group amounted to US\$67,217 (P3,403,550), US\$100,737 (P5,296,605) and US\$80,564 (P4,022,565), as at December 31, 2019, 2018 and 2017, respectively.

c. *Foreign Exchange Rates*

The foreign exchange rates used in translating the Thai Baht accounts of foreign joint ventures to Philippine peso were closing rates of P1.70 and P1.61 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P1.68, P1.61, and P1.54 in 2019, 2018 and 2017, respectively, for income and expense accounts.

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



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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Ginebra San Miguel Inc. (the "Company"), as at and for the year ended December 31, 2019, on which we have rendered our report dated March 11, 2020.

Our audit was made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

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

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 11, 2020
Makati City, Metro Manila

Schedule 1

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2019

GINEBRA SAN MIGUEL INC.

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

Unappropriated Retained Earnings, January 1, 2019	P3,604,001
Adjustments:	
Adjustments in previous years' reconciliation	(3,139,322)
Adjustments due to adoption of PFRS 16	(24,125)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, January 1, 2019	440,554
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	2,246,525
Less: Non-actual/unrealized income net of tax:	
Equity in net income of associate/ joint venture	-
Unrealized foreign exchange gain - (after tax) (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	17
Fair value adjustment (mark-to-market gains)	33,221
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred income tax benefit for the year	162,423
Sub-total	195,661
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Sub-total	-
Net income actually earned during the year	2,491,418
Add (Less):	
Dividends declarations during the period	(692,065)
Appropriation of Retained Earnings during the period	-
Reversals of appropriations	-
Effect of prior period adjustments	-
Treasury shares	-
Sub-total	(692,065)
TOTAL RETAINED EARNINGS, DECEMBER 31, 2019 AVAILABLE FOR DIVIDEND	P1,799,353



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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ginebra San Miguel Inc. and Subsidiaries (the "Group") as at and for the year ended December 31, 2019, on which we have rendered our report dated March 11, 2020.

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

- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J

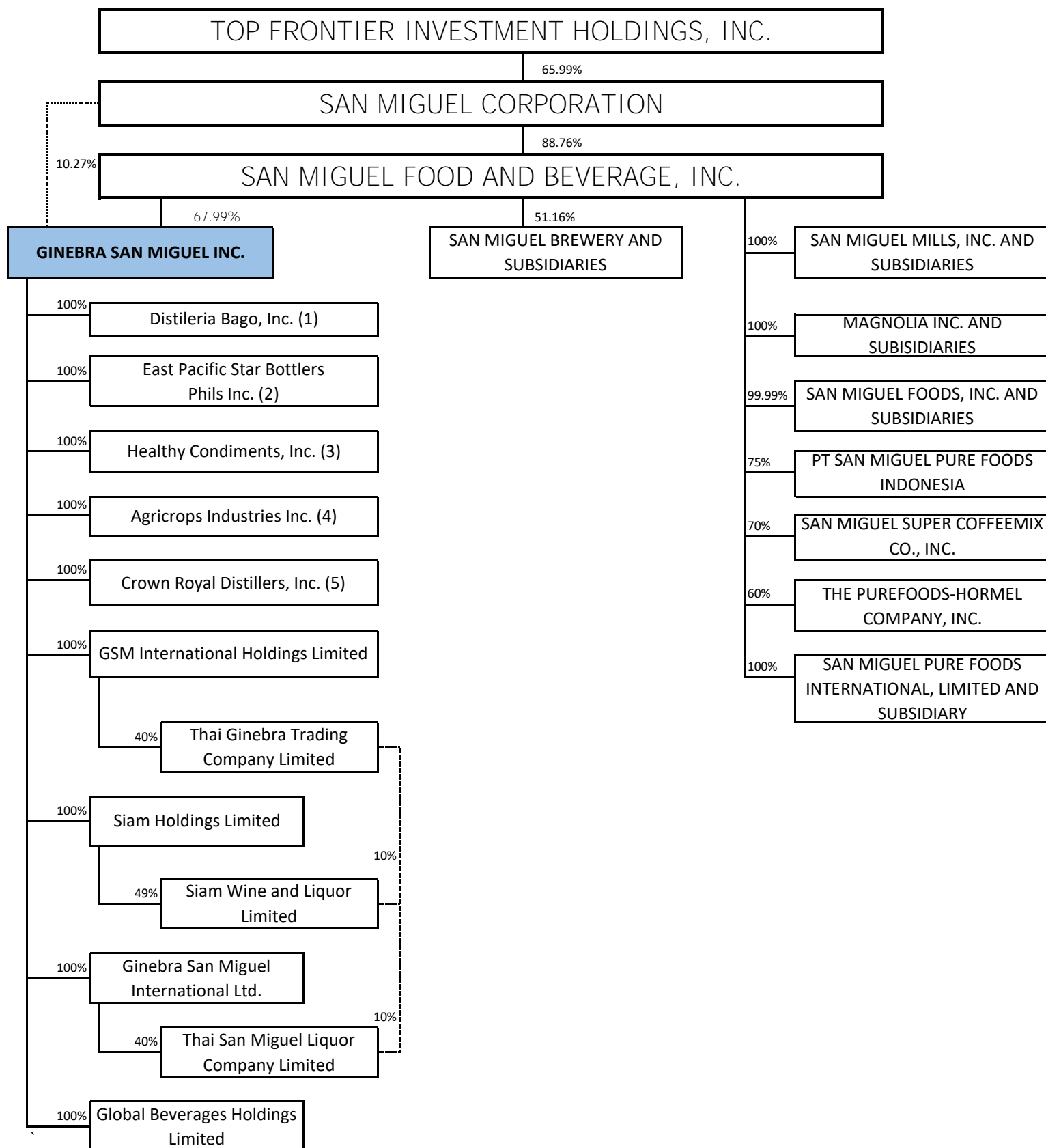
This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the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

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
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PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 11, 2020
Makati City, Metro Manila

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES GROUP STRUCTURE



- (1) Incorporated on March 12, 1992 with primary purpose includes manufacturing, production, tolling, processing, marketing and distillation of alcohol.
- (2) On January 27, 2012, GSML acquired 100% of the outstanding capital stock of EPSBPI.
- (3) Incorporated on January 31, 2008 with a primary purpose of manufacturing, selling and distributing vinegar, other sauce products, condiments and related ingredients.
- (4) Incorporated on September 14, 2000 and started its commercial operations on February 3, 2017.
- (5) Incorporated on March 16, 2001 and has not yet started commercial operations.

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES FORM 17-A, Item 7

December 31, 2019

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Consolidated Financial Statements

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Report of Independent Auditors

Consolidated Statements of Financial Position

for the years ended December 31, 2019 and 2018

Consolidated Statements of Income

for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Comprehensive Income

for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Changes in Equity

for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows

for the years ended December 31, 2019, 2018 and 2017

Notes to the Consolidated Financial Statements

Supplementary Schedules

Report of Independent Auditors on Supplementary Schedules

A. Financial Assets	ANNEX J - 1
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	Not applicable
C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	ANNEX J - 3
D. Long-term Debt	ANNEX J - 4
E. Indebtedness to Related Parties (Long-term Loans from Related Companies)	Not applicable
F. Guarantees of Securities of Other Issuers	Not applicable
G. Capital Stock	ANNEX J - 7

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**Schedule A.**
Financial Assets
December 31, 2019
(In Thousands)

Name of Issuing Entity / Description of Each Issue	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2019	Income Received and Accrued
Cash and cash equivalents	P 354,131	P 354,131	P (12,214)
Trade and other receivables - net	1,551,469	1,551,469	(19,380)
Derivative assets	7,373	7,373	-
Financial assets at FVPL	-	-	-
Available for sale financial assets	-	-	-
Noncurrent receivables and deposits - net	493	493	-
	<u>P 1,913,466</u>	<u>P 1,913,466</u>	<u>P (31,594)</u>

GINEBRA SAN MIGUEL INC.

**Schedule C. Amounts Receivable from Related Parties which are Eliminated
during the Consolidation of Financial Assets
December 31, 2019**
(In Thousands)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Distileria Bago, Inc.	P 15,922	P 161,725	P (177,326)	P -	P 321	P 321	P -	P 321
East Pacific Star Bottlers Phils Inc.	756,952	4,913	(103,787)	-	658,078	2,030	656,048	658,078
Agricrops Industries, Inc.	15,592	3,182	(428)	-	18,346	4,155	14,191	18,346
Healthy Condiments, Inc.	3,055	71	-	-	3,126	71	3,055	3,126
Global Beverages Holdings Ltd.	65,784	-	-	-	65,784	-	65,784	65,784
Siam Holdings Ltd.	91,512	-	-	-	91,512	-	91,512	91,512
	<u>P 948,817</u>	<u>P 169,891</u>	<u>P (281,541)</u>	<u>P -</u>	<u>P 837,167</u>	<u>P 6,577</u>	<u>P 830,590</u>	<u>P 837,167</u>

GINEBRA SAN MIGUEL INC.

**Schedule C. Amounts Payable to Related Parties which are Eliminated
during the Consolidation of Financial Liabilities
December 31, 2019**
(In Thousands)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Distileria Bago, Inc.	P (443,597)	P (1,244,348)	P 1,462,080	P -	P (225,865)	P (169,428)	P (56,437)	P (225,865)
East Pacific Star Bottlers Phils Inc.	(55,907)	(443,761)	395,661	-	(104,007)	(47,017)	(56,990)	(104,007)
Crown Royal Distillers Inc.	(93,750)	-	-	-	(93,750)	-	(93,750)	(93,750)
	P <u>(593,254)</u>	P <u>(1,688,109)</u>	P <u>1,857,741</u>	P <u>-</u>	P <u>(423,622)</u>	P <u>(216,445)</u>	P <u>(207,177)</u>	P <u>(423,622)</u>

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES

Schedule D. Long-term Debt
December 31, 2019
(In Thousands)

Title of Issu	Agent / Lender	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Non Current Transaction Cost	Amount Shown as Long-term	Current and Long-term Debt	Interest Rate	Number of Periodic Installments	Interest Payments	Final Maturity
Fixed	Union Bank of the Philippines	P 882,353	P 235,294	P 1,503	P 233,791	P 647,059	P 4,095	P 642,964	P 876,755	5 Year PDST-R2 as published in PDex a day prior to the Initial Drawdown Date plus a spread of 90 bps divided by a premium factor to be set by the Bank on Draw Down Date or a floor rate of 6% per annum with interest setting date of one (1) banking day prior to availment, whichever is higher	Seventeen (17) equal quarterly amortizations commencing on the fourth (4th) quarter from the initial Drawdown Date	Quarterly	24-Sep-23
		P 882,353	P 235,294	P 1,503	P 233,791	P 647,059	P 4,095	P 642,964	P 876,755				

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**Schedule G. Capital Stock**
As of December 31, 2019

Title of Issue	Number of shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Preferred shares	100,000,000	32,786,885	-	32,786,885	-	-
Common shares	460,000,000	286,327,841	-	216,972,000	239,500	69,116,341
	560,000,000	319,114,726	-	249,758,885	239,500	69,116,341



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REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ginebra San Miguel Inc. and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, on which we have rendered our report dated March 11, 2020.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code (SRC) Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-031-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 11, 2020
Makati City, Metro Manila

Schedule 3

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Ginebra San Miguel Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2019 and 2018 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2019 and 2018 for operating efficiency ratios.

	December 31	
	2019	2018
Liquidity:		
Current Ratio	1.43	1.23
Acid Test Ratio	0.30	0.35
Solvency:		
Debt to Equity Ratio	1.05	1.08
Asset to Equity Ratio	2.05	2.07
Solvency Ratio	1.95	1.93
Profitability:		
Return on Stockholders' Equity	23%	17%
Return on Assets	11%	8%
Net Profit Margin	6%	4%
Interest Rate Coverage Ratio	16.27	7.98
Operating Efficiency:		
Volume Growth	14%	13%
Revenue Growth	17%	19%
Operating Margin	10%	7%

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

KPI	Formula
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Acid Test ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Prepaid taxes and other current assets}}{\text{Current Liabilities}}$
Debt-to-equity ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Stockholders' Equity}}$
Asset-to-equity ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Stockholders' Equity}}$
Solvency ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Total Liabilities (Current + Noncurrent)}}$
Return on stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}$
Return on assets	$\frac{\text{Net Income}}{\text{Total Assets (Current + Noncurrent)}}$
Net profit margin	$\frac{\text{Net Income}}{\text{Net Sales}}$
Interest rate coverage ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Business' Volume}}{\text{Prior Period Volume}} \right) - 1$
Revenue Growth	$\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} - 1$
Operating margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLES
AS OF DECEMBER 31, 2019

Audited

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
a). Trade Receivables	P727,335	442,048	170,533	210	3,640	110,904
Less: Allowance for Doubtful Accounts	(109,595)	-	-	-	-	(109,595)
NET TRADE RECEIVABLES	617,740	442,048	170,533	210	3,640	1,309
b). Non-Trade Receivables	1,075,879	121,978	42,545	45,383	25,567	840,406
Less: Allowance for Doubtful Accounts	(142,150)	-	-	-	-	(142,150)
NET NON-TRADE RECEIVABLES	933,729	121,978	42,545	45,383	25,567	698,256
NET RECEIVABLES	P1,551,469	564,026	213,078	45,593	29,207	699,565



GINEBRA SAN MIGUEL INC.

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

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of GinebraSan Miguel Inc. (“the Parent Company”) and its subsidiaries (collectively referred to as the “Group”) for the three-year period ended December 31, 2019. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019. All necessary adjustments to present fairly the Group’s consolidated financial position as of December 31, 2019 and the financial performance and cash flows for the year ended December 31, 2019 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

Items	Measurement Basis
Financial assets at fair value through profit or loss (FVPL)	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation

Functional and Presentation Currency

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

Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

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

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- 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 also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 8.5% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- applied the exemption not to recognize right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position.

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

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ASSETS	
Prepaid expenses and other current assets	(P6,257)
Right-of-use assets - net	225,439
Deferred tax assets	28,291
	P247,473
LIABILITIES AND EQUITY	
Lease liabilities - current portion	P49,265
Lease liabilities - net of current portion	209,628
Total Liabilities	258,893
Retained earnings	(11,420)
	P247,473

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P142,736
Recognition exemption for short-term leases	(56,561)
Extension and termination options reasonably certain to be exercised	290,092
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(117,374)
Lease liabilities recognized as at January 1, 2019	P258,893

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any

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current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendments to PFRS 9). The amendments cover the following areas:
 - *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 (FVOCI) 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.
 - *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 the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

II. FINANCIAL PERFORMANCE

2019 vs. 2018

GSMI demonstrated strong performance in 2019 with sales revenue of P29,063 million, 17% higher than prior year, driven by the higher demand for its flagship brand, Ginebra San Miguel.

The decrease in alcohol costs and sustained operational efficiencies of bottling and distillery plants, resulted to a gross profit margin of 27% which was 1 point better than last year.

Sustained sales growth, coupled with effective variable and fixed cost management, brought consolidated operating income to P2,878 million, 57% higher than last year.

Decrease in interest expense was mainly due to the continuous reduction of interest-bearing liabilities. On the other hand, increase in equity in net losses of joint venture primarily represents the losses incurred by Thailand entities.

Other income was up by P108 million than year ago as a result of higher tolling fees and net derivative gains.

2018 vs. 2017

Focused execution on strengthening brand equity, improving distribution, cost containment and extracting more efficiency throughout our supply chain resulted to a strong overall growth for the company, resulting to P1,053 million net income, 75% better than last year.

Revenue of P24,835 million was 19% better than the year before due to the volume improvements of its flagship brand coupled with the sustained growth of other core brands. Increase in cost of sales is at 18% due to the increase in sales volume.

The combined additional spending in advertising and promotion programs, distribution costs and personnel expenses brought the 20% increase in selling and marketing expense. On the other hand, general and administrative expenses increased by 14% on account of higher personnel expenses, outside services and taxes.

Interest expense dropped by 20% due to payment of notes payable and long-term loans. Meanwhile, the 56% reduction in equity in net loss of joint venture was due to a better operating result of its Thailand joint venture entities in 2018.

Sale of various transportation vehicles raised the gain on sale by 130% coming from a loss in prior year. On the contrary, other income decreased by 87% as a result of fair value differences recognized in 2018.

Income tax expense increased by 48% from year ago due to the net income before taxes of P1,564 million which is 65% higher than 2017.

III. FINANCIAL POSITION

2019 vs. 2018

Cash and cash equivalent increased by 58% to P354 million in 2019 as a result of effective collection of accounts receivable and cash on delivery arrangements with customers.

Inventories amounting to P6,113 million, 57% higher than last year, was largely driven by purposive inventory buildup, resulting to higher finished goods inventory in the last quarter of

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2019 in anticipation of 2020 excise tax hike. As a result of the buildup, accounts payable and accrued expenses increased by 55% vs prior year.

On the other hand, part of the cash collections were also utilized to settle interest-bearing loans, which decreased by P957 million and P118 million, respectively.

As a result of the adoption of PFRS 16, right-of-use assets and lease liabilities were recognized in 2019 amounting to P196 million and P226 million, respectively.

The Company's robust operational performance in 2019 enabled to strengthen its financial position and paid out cash dividend to preferred and common shareholders amounting to P692 million.

2018 vs. 2017

Cash and cash equivalents increased by 13% on account of the continuous improvement in cash collection, through the shift of majority of customers to cash payment terms.

Higher purchases of bunker fuel and alcohol to support increase in production volume raised inventory by 17%. On the other hand, 24% decrease in prepaid taxes and other current assets pertains to taxes expensed during the year.

Investment in joint ventures declined by 19% mainly due to Thailand joint ventures entity losses net of effect of exchange rate fluctuation within the year. This has in turn caused equity's cumulative translation adjustment to increase by 67% versus last year.

The decrease in deferred tax asset by 10% is mainly due to the tax expense from the increase in reserve for retirement plan, which raised by 43% on account of actuarial gains recognized during the year.

Other noncurrent assets declined by 28% due to expenses recorded for fair market value differences.

Notes payable reduced by 55% as the company continued to settle its short-term obligations. Portion of the company's notes payable was also converted to long term loan, causing the increase in its noncurrent liabilities. On the other hand, retirement liabilities decreased by 55% on account of higher actuarial gains offset by the decrease in return on plan assets.

IV. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	December 31	
	2019	2018
	<i>(in Millions)</i>	
Net cash flows provided by operating activities	P2,325	P2,502
Net cash flows used in investing activities	(353)	(300)
Net cash flows used in financing activities	(1,841)	(2,178)

Net cash flows provided by operating activities consist of income before income tax for the period and the effect of changes in current assets and certain current liabilities, and others.

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Net cash flows used in investing activities include the following:

	December 31	
	2019	2018
	<i>(in Millions)</i>	
Additions to property, plant and equipment	(P387)	(P274)
Decrease in other noncurrent assets	32	(29)
Proceeds from sale of investments and property and equipment	2	3

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

	December 31	
	2019	2018
	<i>(in Millions)</i>	
Proceeds from short-term and long-term borrowings	P7,714	P39,223
Payments of short-term and long-term borrowings	(8,789)	(41,401)
Cash dividends paid	(687)	(29)
Payments of lease liabilities	(80)	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P0.77) million and P1.4 million for the periods ended December 31, 2019 and 2018, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures used by the Group. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II, “Financial Performance” of the Management Discussion and Analysis (MD&A), for the discussion of certain computed Key Performance Indicators.

KPI	As of December 31, 2019	As of December 31, 2018
Liquidity: Current Ratio	1.43	1.23
Solvency: Debt to Equity Ratio Asset to Equity Ratio	1.06 2.06	1.08 2.07
Profitability: Return on Average Equity Interest Rate Coverage Ratio	25% 16.27	19% 7.98

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Operating Efficiency: Volume Growth Revenue Growth Operating Margin	14% 17% 10%	13% 19% 7%

Annex “C”

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

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

VI. OTHER MATTERS

a. Commitments

The outstanding purchase commitments of the Group amounted to US\$67 million (P3,403 million), as of December 31, 2019.

b. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. No provision was recognized in 2019, 2018 and 2017.

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1. Tax Cases Pending with the Court of Tax Appeals (“CTA”)

Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue *CTA Case Nos. 8953 and 8954 (Consolidated)*

These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P581.7 million in Case No. 8953, and P133.6 million in Case No. 8954, or in the total amount of P715.3 million, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence. The CTA admitted all of GSMI's evidence while the BIR's Formal Offer of Evidence and GSMI's Comment thereto are still under consideration of the CTA.

These cases are still pending with the CTA.

Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue *CTA Case No. 9059*

This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26.2 million, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2019, the CTA denied the GSMI's Claim from Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said decision, which is still pending resolution.

2. Intellectual Property Cases Pending with the Supreme Court (“SC”)

In a Resolution dated January 14, 2019, the SC Third Division resolved to consolidate all the cases enumerated below. The cases are still pending with the said division of the SC.

Ginebra San Miguel Inc. vs. Director General of the Intellectual Property Office *G.R. No. 196372* *SC – En Banc*

This case pertains to GSMI's application for the registration of the trademark “GINEBRA” under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that

Annex “C”

“GINEBRA” is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals (CA) affirmed the IOPHL’s ruling, GSMI filed a Petition for Review on Certiorari (the “Petition”) with the SC. The SC denied GSMI’s Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the *SC En Banc*. The SC denied GSMI’s Motion for Reconsideration with finality, as well as GSMI’s Motion to Refer to its Motion for Reconsideration to the *SC En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the “Manifestation”) and invoked the case of *League of Cities vs. Commission of Elections* (G.R. Nos. 176951, 177499 and 178056) to invite the *SC En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the *SC En Banc* Issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter’s resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI’s Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten (10) days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.
G.R. Nos. 210224 and 219632
SC – Third Division

These cases pertain to GSMI’s Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduay Distillers, Inc. (TDI) filed with the Regional Trial Court (RTC), arising from TDI’s distribution and sale of its gin product bearing the trademark “Ginebra Kapitan” and use of a bottle design, which general appearance was nearly identical and confusingly similar to GSMI’s product. The RTC dismissed GSMI’s complaint.

When GSMI elevated the case to the CA, due to technicalities, two (2) cases were lodged in the CA: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Appeal (CA-G.R. SP No. 100332).

Acting on GSMI’s Petition for Review, the CA reversed, set aside the RTC’s Decision, and ruled that “GINEBRA” is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the CA ruled that TDI’s use of “GINEBRA” in “GinebraKapitan” produces a likelihood of confusion between GSMI’s “Ginebra San Miguel” gin product and TDI’s “GinebraKapitan” gin product. The CA likewise ruled that “TDI knew fully well that GSMI has been using the mark/word “GINEBRA” in its gin products and that GSMI’s “Ginebra San Miguel” has already obtained, over the years, a considerable number of loyal customers who associate the mark “GINEBRA” with GSMI.

On the other hand, upon GSMI’s Appeal, the CA also set aside the RTC’s Decision and ruled that “GINEBRA” is not a generic term there being no evidence to show that an ordinary person in the Philippines would know that “GINEBRA” is a Spanish word for “gin”. According to the CA, because of GSMI’s use of the term in the Philippines since the 1800s, the term “GINEBRA” now exclusively refers to GSMI’s gin products and to GSMI as a manufacturer. The CA added that “the mere use of the word “GINEBRA” in “GinebraKapitan” is sufficient to incite an average

Annex “C”

person, even a gin-drinker, to associate it with GSMI’s gin product,” and that TDI “has designed its bottle and label to somehow make a colourable similarity with the bottle and label of Ginebra S. Miguel”.

TDI filed separate Petitions for Review on Certiorari with the SC, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the SC on April 18, 2016.

On October 26, 2016, GSMI filed its Comment TDI’s Petition for Review on Certiorari.

Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.
G.R. No. 216104
SC – Third Division

This case pertains to TDI’s application for the registration of the trademark “GINEBRA KAPITAN” for Class 33 covering gin with the IPOPHL.

GSMI opposed TDI’s application, alleging that it would be damaged by the registration of “GINEBRA KAPITAN” because the term “GINEBRA” has acquired a secondary meaning and is now exclusively associated with GSMI’s gin products. GSMI argued that the registration of “GINEBRA KAPITAN” for use in TDI’s gin products will confuse the public and cause damage to GSMI. TDI countered that “GINEBRA” is generic and incapable of exclusive appropriation, and that “GINEBRA KAPITAN” is not identical or confusingly similar to GSMI’s mark.

The IPOPHL ruled in favor of TDI and held that: (a) “GINEBRA” is generic for “gin”; (b) GSMI’s products are too well known for the purchasing public to be deceived by a new product like “GINEBRA KAPITAN”; and (c) TDI’s use of “GINEBRA” would supposedly stimulate market competition.

On July 23, 2014, the CA reversed and set aside the IPOPHL’s ruling and disapproved the registration of “GINEBRA KAPITAN”. The CA ruled that “GINEBRA” could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the SC, which was subsequently consolidated with the case of *Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*, docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comment on TDI’s Petition for Review on Certiorari.

3. Case Pending with the Securities and Exchange Commission

*Josefina Multi-Ventures Corporation vs. San Miguel Corporation,
San Miguel Food and Beverage, Inc. and Ginebra San Miguel Inc.*
SEC Case No. 05-18-468

Josefina Multi-Ventures Corporation (the “Petitioner”), one of the stockholders of GSMI, filed a petition against SMC, SMFB and GSMI, docketed as SEC Case No. 05-18-468 (the “Petition”), questioning the share swap transaction between SMFB and SMC relative, among others to, the transfer of SMC’s common shares in GSMI in exchange of SMFB’s common shares.

The Petition sought (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC’s common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB’s capital stock; and, (b) SMFB’s Certificate of Approval of

Annex “C”

Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

In a decision dated February 19, 2019, the SEC dismissed the Petition and ruled, among others, that the share swap transaction is not subject to the mandatory tender offer rule since there was no acquisition of control between SMC and its subsidiaries SMB and GSMI. The Petitioner filed a Motion for Reconsideration of the said decision, which was denied on May 30, 2019.

The Petitioner filed an Appeal Memorandum dated June 18, 2019 with the SEC En Banc, which is still pending resolution.

c. *Foreign Exchange Rates*

The foreign exchange rates used in translating the Thai Baht accounts of foreign joint ventures to Philippine peso were closing rates of P1.70 and P1.61 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P1.68, P1.61 and P1.54 in 2019, 2018 and 2017, respectively, for income and expense accounts.

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

**MINUTES OF THE
REGULAR STOCKHOLDERS' MEETING
OF GINEBRA SAN MIGUEL INC.**

May 30, 2019 at 2:00 P.M.
Executive Dining Room, SMC Head Office Complex
40 San Miguel Ave., Mandaluyong City

Directors Present:

Eduardo M. Cojuangco, Jr. - Chairman
Ramon S. Ang
Francisco S. Alejo III
Aurora T. Calderon
Leo S. Alvez
Gabriel S. Claudio
Mario K. Surio
Minita V. Chico-Nazario – Independent Director
Aurora S. Lagman – Independent Director

In attendance:

Ferdinand K. Constantino, SMC Senior Vice President
and Chief Finance Officer
Virgilio S. Jacinto, GSMI Corporate Secretary
and Compliance Officer
Emmanuel B. Macalalag, GSMI General Manager
Cynthia M. Baroy, GSMI Chief Finance Officer
Conchita P. Jamora, GSMI General Counsel
and Asst. Corporate Secretary
Maila N. Pagsanhan, GSMI Associate General Counsel
Reyna-Beth D. De Guzman, Investor Relations Officer
Noel A. Baladiang, Partner, R.G. Manabat & Co.
Darwin P. Virocel, Partner, R.G. Manabat & Co.

Management Committee Members:

Noel T. Callanta
Charity Anne A. Chiong
Teodorico T. Lasin
Allan P. Mercado
Eileen C. Miranda
Ronald Rudolf C. Molina
Isadora A. Papica
Saturnino G. Pajarillo, Jr.

I. NATIONAL ANTHEM AND INVOCATION

The Corporate Secretary, Atty. Virgilio S. Jacinto, requested everyone to rise for the singing of the National Anthem and to remain standing for the Invocation to be led by Ms. Cynthia M. Baroy, Chief Finance Officer of the Company.

II. CALL TO ORDER/CERTIFICATION ON NOTICE AND QUORUM

The Chairman, Mr. Eduardo M. Cojuangco, Jr., presided and called the meeting to order. Atty. Jacinto recorded the minutes of the proceedings.

Atty. Jacinto confirmed that notices were duly sent to the stockholders of record of the Company and that there was a quorum for the meeting. He notified the assembly that there were present in the meeting, in person or by proxy, about 85.7% of the common shares of stocks and 100.0% of the preferred shares of stocks of the Company, or about 87.2% of the outstanding capital stock of the Company. Further, he added that for the record, proxies covering 84.9% of the outstanding shares of the Company were issued in favor of and held by the Chairman, authorizing him to vote for the approval of all corporate acts that required the conformity of the stockholders as provided in the agenda of the meeting. Finally, he stated that voting shall be made in accordance with the procedure set forth in the Information Statement that was distributed to the stockholders prior to the meeting.

Atty. Jacinto also advised the stockholders that an open forum will follow the presentation of the Annual Report for 2018 and, in order to give them a chance to ask their questions, the stockholders were requested to submit their questions in writing. He added that question forms were available from the ushers and usherettes and that the stockholders should identify themselves in the form. Finally, he said that in answering the questions, written questions submitted in advance would be given preference.

III. APPROVAL OF THE MINUTES OF THE REGULAR STOCKHOLDERS' MEETING ON MAY 31, 2018

The Chairman presented the first item in the agenda which was the approval of the Minutes of the Regular Stockholders' Meeting held on May 31, 2018. He informed the stockholders that a copy of the draft Minutes is posted in the Company's website, available for examination at the Office of the Corporate Secretary and posted at the registration area.

On motion duly made and seconded and there being no objection, the following resolution was approved by the stockholders present and/or represented:

Resolution No. 2019-05-30-01

"RESOLVED, that the Minutes of the Regular Stockholders' Meeting of Ginebra San Miguel Inc. held on May 31, 2018, be approved."

IV. PRESENTATION OF THE ANNUAL REPORT

The Chairman proceeded to the next item in the agenda. He requested the General Manager of the Company, Mr. Emmanuel B. Macalalag, to present the Annual Report for 2018.

Mr. Macalalag presented to the stockholders the Company's Annual Report for 2018. A copy of his report is attached as Annex "A".

After the report, Atty. Jacinto reminded the assembly that written questions submitted in advance will be given priority in the open forum.

During the open forum, the following written questions were raised and answered by Mr. Macalalag as follows:

Ms. Rosalina Lioanag from San Mateo, Rizal

“What contributed to the impressive performance of the Company in 2018 and how did the Company perform in the first quarter of 2019? What then is the outlook for the rest of the year?”

Mr. Macalalag replied that the performance of 2018 were driven mostly by the rising volumes which were supported by successful marketing and selling programs and coupled with good margin as well. In 2018, both volumes and margins were good resulting to a very good performance in 2018.

For the first quarter of 2019, results were also quite impressive. Volumes grew by 24% and Net Income was also more than double the same period last year. Thus, Management is confident that 2019 will be another good year for GSMI.

Ms. Monina Cortez from Quezon City

“Salamat po sa natanggap naming dibidendo nitong taon. Tuloy-tuloy na po ba ito?”

According to Mr. Macalalag, *“Pag nakita po natin ang performance this quarter at pagsisikapan po ng management na magtuloy-tuloy ang performance, pag ka ganoon po magtutuloy tuloy po ang dibidendo.”*

Mr. Juan Ma. Carlos Maningat from Pasig City

“Will there be an increase in excise tax? How will this impact on the Company?”

Mr. Macalalag responded that there is a pending bill in Congress to raise the excise tax on liquor/alcohol beverages and cigarettes. If this is approved, and the tax will be raised, there will be a need to increase prices. Normally, there is a temporary reaction on volume to price increases but somehow after a certain period *volume will recover*. Rest assured at this point, the Company is already trying to formulate strategies to mitigate the impact of price increase next year.

Ms. Ann Bularan-Santos from Valenzuela City

“Ano po ba ng pwedeng asahan ng mga fans sa Barangay Ginebra San Miguel basketball team ngayong taon?”

Mr. Macalalag reply was *“We are in Commissioner’s Cup this time, siguro ganadong Ganado na ang team natin na maipanalo ito dahil sila ho ang champion ng Commissioner’s cup last year. May pag-asa naman po siguro tayong manalo.”*

Apart from the written questions, there were two (2) stockholders who expressed their comments during the open forum:

Mr. Guillermo Gili commented on the absence of the identification cards of those personnel manning the registration table and expressed concern as to why the latter refused to acknowledge the certificates issued by his brokers. Mr. Ang answered Mr. Gili that he is familiar to the registration personnel and they recognized him. Mr. Ang added in jest that Mr. Gili failed to attend there (3) stockholders’ meeting.

Mr. Christopher Yu expressed his observation that the Company’s subsidiary or affiliate, Thai San Miguel, has been registering negative net income for the past years. Mr. Ang commented that we should trust the Company considering that there has been a substantial turn around on the financial performance of the Company last year. He expressed optimism that the Company’s net income for full-year 2019 will more than double to P2.5 billion from last year’s P1.05 billion based on the increase of the net income of the Company for the first (1st) quarter of 2019.

As there were no other questions, a stockholder moved to close the open forum, approve and ratify the Annual Report for 2018, as presented.

On motion duly made and seconded, and there being no objection, the following resolution was approved by the stockholders present and/or represented:

Resolution No. 2019-05-30-02

“RESOLVED, that the open forum of stockholders be closed and that the Annual Report for 2018, as presented, be approved.”

V. RATIFICATION OF ALL ACTS AND PROCEEDINGS OF THE BOARD OF DIRECTORS AND THE CORPORATE OFFICERS

The Chairman proceeded to the next item in the agenda, which was the ratification of all acts and proceedings of the Board of Directors and corporate officers since the Regular Stockholders' Meeting held on May 31, 2018 until the date of this meeting. He informed the assembly that the list of the acts and proceedings for ratification was available for viewing at the registration area and was shown on the screen for reference.

On motion duly made and seconded, and there being no objection, the following resolution was approved by the stockholders present and/or represented:

Resolution No. 2019-05-30-03

“RESOLVED, that all acts, resolutions, and proceedings of the Board of Directors and corporate officers of the Company since the Regular Meeting of the Stockholders held on May 31, 2018 until the date of this meeting as reflected in the minutes of the meetings of the Board of Directors, as well as financial statements and records of the Company be approved, confirmed and ratified.”

VI. ELECTION OF DIRECTORS

The Chairman requested Atty. Jacinto to read the names of the nominees for election to the Board of Directors of the Company for 2019.

Atty. Jacinto informed the assembly that the qualifications of the nominees were evaluated and favorably recommended to the Board by the Corporate Governance Committee during its meeting held on March 13, 2019. He added that the names of the nominees were included in the Information Statement, and are presented on the screen. He then read the names of the nominees, who are as follows, namely:

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

The Chairman informed the stockholders that in compliance with the mandatory requirement of the Securities and Exchange Commission in electing Independent Directors, the nominees for election as Independent Directors, who are Minita V. Chico-Nazario and Aurora S. Lagman, were disclosed in the Information Statement distributed to the stockholders.

A stockholder moved that considering that the number of directors to be elected is nine (9) and there are only nine (9) nominees, the balloting be dispensed with and that all the nine (9) nominees be considered unanimously elected as Directors of the Company. The motion having been duly made and seconded, and there being no objection, the following resolution was approved by the stockholders present and/or presented:

Resolution No. 2018-05-30-04

“RESOLVED, that balloting be dispensed with and the following be considered unanimously elected as Directors of the Company:

Mr. Eduardo M. Cojuangco, Jr.
Mr. Ramon S. Ang
Mr. Francisco S. Alejo III
Ms. Aurora T. Calderon
Mr. Leo S. Alvez
Mr. Gabriel S. Claudio
Mr. Mario K. Surio
Ms. Minita V. Chico-Nazario – Independent Director
Ms. Aurora S. Lagman – Independent Director”

The Chairman, on behalf of Management, welcomed the newly-elected Directors of the Company. He also thanked the stockholders for their trust and confidence.

VII. APPOINTMENT OF EXTERNAL AUDITOR

The Chairman proceeded to the next item in the agenda, which was the appointment of External Auditor and requested Director Minita V. Chico-Nazario, Independent Director and Chairman of the Audit and Risk Oversight Committee, to present the recommendation of the said Committee on the matter.

Director Chico-Nazario informed the stockholders that after deliberation and evaluation of the Audit and Risk Committee during its meeting on March 13, 2019, the Committee agreed to favorably recommend the reappointment of the auditing firm of R.G Manabat & Co. as the External Auditor of the Company for the fiscal year 2019.

On motion duly made and seconded, and there being no objection, the following resolution was approved by the stockholders present and/or represented:

Resolution No. 2019-05-30-05

“RESOLVED, that the auditing firm of R.G. Manabat & Co. be designated as External Auditor of the Company for the fiscal year 2019.”

VIII. ADJOURNMENT

The Chairman asked if there were any other matters or business that the stockholders intend to present to the assembly.

On motion duly made and seconded and there being no objection, the following resolution was approved by the stockholders present and/or represented:

Resolution No. 2019-05-30-06

“RESOLVED, that the 2019 Regular Stockholders’ Meeting of the Company be adjourned.”

A copy of the voting results is attached as Annex “B”.

ATTESTED BY:

EDUARDO M. COJUANGCO, JR.
Chairman

VIRGILIO S. JACINTO
Corporate Secretary

2018 ANNUAL REPORT TO THE STOCKHOLDERS

Fellow stockholders, ladies and gentlemen, good afternoon.

Ginebra San Miguel Inc. had a breakthrough year in 2018. Our company returned to billion-level Net Income on the back of sales of 31.4 million cases, 13% higher than the year before and our highest volume since 2011. These gains were the result of our commitment to capture a much larger share of the liquor market and to improve margins through supply chain efficiencies.

Consolidated Revenues reached Php24.8 billion, 19% better than the previous year. Our Gross Contribution of Php6.6 billion was 23% better than the year before. Operating Income was at Php1.8 billion and Net Income at P1.05 billion; significantly higher by 40% and 75% respectively from year ago, our highest since 2005.

At the center of our efforts to connect consumers to our product was the thematic campaign “Ginebra Ako”. The campaign celebrated the Filipino’s strength and resiliency and showed how the Ginebra brand has become so much part of the Filipino’s daily grind. That message and the ad’s anthem resonated really well with our core drinkers, while our push for broader distribution helped put our product within arm’s reach whenever the consumer wanted it. The result was a 13% jump in the volume of our flagship brand Ginebra San Miguel.

Our core brand for Visayas and Mindanao, Vino Kulafu also registered robust growth with volumes growing 6% over the previous year. Its “Dosenang Lakas” ad campaign which highlighted the 12-herb formulation that has made Vino Kulafu famous, helped raise brand awareness while an under-the-cap consumer promo ensured steady offtake at the retailer level.

We pride ourselves on being a spirits company with a portfolio of consumer-centric brands, and with the younger demographic, our GSM Blue has steadily gained patronage with volumes rising 69% from 2017 levels. We’re pleased to report that GSM Blue and Primera Light Brandy emerged as potential volume drivers as we strive to expand our consumer base in the years ahead.

In 2018, we also made significant gains in our pursuit of greater efficiencies across the supply chain. We expanded our base of alcohol suppliers and managed to improve our bottle retrieval system. We also introduced new technologies and processes at our distillery to increase molasses yield. All these efforts temper production costs, and improve our margins.

With our motivated workforce and trade partners, we are confident that GSMI will have another good year in 2019. For the first quarter this year, sales volume surged 24% to post Consolidated Revenues of Php8.3 billion, up 28% compared to the same period last year. Operating Income reached Php986 million while Net Income was at Php616 million, both more than double the amount posted the year before.

Fellow stockholders, we’ve come a long way from those challenging times when our company was struggling and trying to hold its own against other rival companies. Today, we continue to focus our efforts on advancing our position in the liquor industry and sustaining our profitability.

On behalf of the members of the Board, I would like to extend my sincerest gratitude to all GSMI employees for their commitment and dedication. Our thanks also goes to you, our shareholders, for your continued trust and support.

Maraming salamat po at isang magandang hapon po sa inyong lahat.

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Ginebra San Miguel Inc.
PROXY VOTING MODULE
Stockholders' Meeting Vote Canvassing Results

PAGE 1

NOM. NO.	NOMINEE	VOTES
1	EDUARDO M. COJUANGCO, JR.	277,723,870
2	RAMON S. ANG	277,723,870
3	FRANCISCO S. ALEJO III	277,723,870
4	LEO S. ALVEZ	277,723,870
5	AURORA T. CALDERON	277,723,870
6	GABRIEL S. CLAUDIO	277,723,870
7	MARIO K. SURIO	277,723,870
8	MINITA V. CHICO-NAZARIO	278,141,670
9	AURORA S. LAGMAN	278,141,670
Total votes registered		2,503,275,030
Total votes counted for election of board nominees		2,500,350,430
Total uncast votes for election of board nominees		2,924,600

RES. NO.	RESOLUTION	SHARES VOTED	% TO TOTAL O.S.
2	Approval of the Minutes of the Regular Stockholders' Meeting held on May 31, 2018	278,141,670	87.160%
	For	278,141,670 -	87.160%
	Against	0 -	0.000%
	Abstain	0 -	0.000%
3	Presentation and Approval of the Annual Report of the Company for the year ended December 31, 2018	278,141,670	87.160%
	For	278,141,670 -	87.160%
	Against	0 -	0.000%
	Abstain	0 -	0.000%
4	Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers	278,141,670	87.160%
	For	278,141,670 -	87.160%
	Against	0 -	0.000%
	Abstain	0 -	0.000%
5	Appointment of R.G. Manabat & Co. as External Auditor of the Company for 2019	278,141,670	87.160%
	For	278,141,670 -	87.160%
	Against	0 -	0.000%
	Abstain	0 -	0.000%

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Ginebra San Miguel Inc.
PROXY VOTING MODULE
Stockholders' Meeting Vote Canvassing Results

PAGE 2

SUMMARY REPORT		% TO TOTAL O.S.

OUTSTANDING COMMON SHARES	286,327,841	
OUTSTANDING PREFERRED SHARES	32,786,885	

TOTAL OUTSTANDING SHARES AS OF RECORD DATE	319,114,726	
TOTAL SHARES IN ATTENDANCE :		
Attending proxy assignees	271,058,321	
Attending stockholders	7,269,292	
	-----	-----
	278,327,613	87.219%
LESS :		
Invalidated / knocked-off / Uncast shares - Proxy Assignees	0	
Knock-off by attending stockholder	0	
Invalidated shares - Stockholders	0	
Uncast shares of stockholders	185,943	
	-----	-----
TOTAL SHARES/VOTES COUNTED	278,141,670	87.160%
	=====	=====

*** END OF REPORT ***

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Ginebra San Miguel Inc.
PROXY VOTING MODULE
Voting Instructions (Grouped by Entry Date)
May 27, 2019 to May 30, 2019

PAGE 1

ENTRY DATE	PX FORM	SH NUMBER	STOCKHOLDER NAME	ASSIGNED SHARES	PX GROUP	VOTING INSTRUCTIONS
05/29/2019	00000001	0000000074706	SAN MIGUEL FOOD AND BEVERAGE, INC.	216,972,000	03	YYYY
05/29/2019	00000002	0000000029335	SAN MIGUEL CORPORATION RETIREMENT PLAN	6,000	01	YYYY
05/29/2019	00000003	PCD0000000139	SAN MIGUEL CORPORATION RETIREMENT PLAN	12,308,221	01	YYYY
05/29/2019	00000004	PCD0000000142	SAN MIGUEL CORPORATION RETIREMENT PLAN-STP	1,446,715	01	YYYY
05/29/2019	00000005	PCD0000000144	GINEBRA SAN MIGUEL, INC. RETIREMENT PLAN	4,500,000	01	YYYY
05/29/2019	00000006	PRF0000000027	SAN MIGUEL CORPORATION	32,786,885	02	YYYY
05/29/2019	00000007	PCD0000000137	DEUTSCHE BANK MANILA-CLIENTS A/C	2,620,700	01	YYYY
05/29/2019	00000008	PCD0000000137	DEUTSCHE BANK MANILA-CLIENTS A/C	417,800	01	YYYY

TOTAL PROXIES : 8
TOTAL SHARES ASSIGNED : 271,058,321
TOTAL UNASSIGNED SHARES : 483,280
TOTAL PROXIES SUPERCEDED : 0
TOTAL SHARES SUPERCEDED : 0

*** END OF REPORT ***

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND DECEMBER 31, 2019
(In Thousands)

		2020	2019
	Note	Unaudited	Audited
ASSETS			
Current Assets			
Cash and cash equivalents	6, 7	P1,274,759	P354,131
Trade and other receivables - net	3, 6, 7	1,276,085	1,551,469
Inventories		5,579,912	6,113,043
Prepaid expenses and other current assets	6, 7	1,290,170	1,080,723
Total Current Assets		9,420,926	9,099,366
Noncurrent Assets			
Investments in joint ventures		16,764	57,963
Property, plant and equipment - net	2	4,429,635	4,441,137
Right-of-use assets - net		181,212	196,218
Goodwill		126,863	126,863
Deferred tax assets - net		545,935	567,944
Other noncurrent assets - net	3, 6, 7	154,550	169,731
Total Noncurrent Assets		5,454,959	5,559,856
		P14,875,885	P14,659,222
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	3, 6, 7	P1,056,000	P1,519,000
Accounts payable and accrued expenses	3, 6, 7	4,522,446	4,208,502
Lease liabilities - current portion	3, 6, 7	61,332	67,980
Income and other taxes payable		418,707	346,417
Current maturities of long-term debt - net of debt issue costs	6, 7	233,795	233,791
Total Current Liabilities		6,292,280	6,375,690
Noncurrent Liabilities			
Long-term debt - net of debt of issue costs	6, 7	584,510	642,964
Retirement liabilities		382,340	363,083
Lease liabilities - net of current portion	3, 6, 7	147,677	157,684
Total Noncurrent Liabilities		1,114,527	1,163,731
Total Liabilities		7,406,807	7,539,421
Equity			
Capital stock		399,063	399,063
Additional paid-in capital		2,539,454	2,539,454
Equity reserves		(352,669)	(311,470)
Retained earnings:			
Appropriated		2,500,000	2,500,000
Unappropriated	5	5,053,203	4,662,727
Treasury stock		(2,669,973)	(2,669,973)
Total Equity		7,469,078	7,119,801
		P14,875,885	P14,659,222

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

CERTIFIED CORRECT:

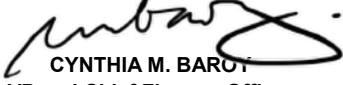

CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands, Except Per Share Data)

		2020	2019
	<i>Note</i>	Unaudited	Unaudited
SALES	3	P7,452,478	P8,265,319
COST OF SALES		5,539,982	6,040,241
GROSS PROFIT		1,912,496	2,225,078
SELLING AND MARKETING EXPENSES		(674,283)	(650,039)
GENERAL AND ADMINISTRATIVE EXPENSES		(552,534)	(588,737)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(33,624)	(53,132)
GAIN (LOSS) ON DISPOSAL / RETIREMENT OF PROPERTY AND EQUIPMENT		(649)	692
EQUITY IN NET LOSSES OF JOINT VENTURES		-	(51,174)
INTEREST INCOME	3	1,199	9,530
OTHER INCOME - Net		35,378	42,706
INCOME BEFORE INCOME TAX		687,983	934,924
INCOME TAX EXPENSE		213,630	318,997
NET INCOME		P474,353	P615,927
Basic and diluted earnings per share	4	P1.61	P2.11

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

CERTIFIED CORRECT:


CYNTHIA M. BAROT
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

	2020	2019
	Unaudited	Unaudited
NET INCOME	P474,353	P615,927
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified to profit or loss		
Share in other comprehensive income (loss) of joint ventures	(41,199)	7,923
OTHER COMPREHENSIVE INCOME	(41,199)	7,923
TOTAL COMPREHENSIVE INCOME - Net of tax	P433,154	P623,850

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

CERTIFIED CORRECT:

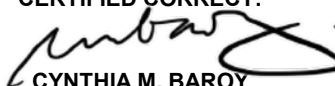

CYNTHIA M. BAROT
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

	2020	2019
	Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P687,983	P934,924
Adjustments for:		
Depreciation and amortization	180,233	178,484
Provision for doubtful accounts	38,700	380
Interest expense and other financing charges	33,624	53,132
Retirement expense	21,256	19,399
Loss (Gain) on disposal / retirement of property and equipment - net	649	(692)
Net unrealized foreign exchange loss	105	520
Equity in net losses of joint ventures	-	51,174
Interest income	(1,199)	(9,530)
Net derivative loss (gain)	(4,193)	(1,131)
Operating income before working capital changes	957,158	1,226,660
Decrease (increase) in:		
Trade and other receivables	236,664	21,015
Inventories	539,153	655,004
Prepaid taxes and other current assets	(278,059)	(175,649)
Increase (decrease) in:		
Trade and other payables	151,708	777,520
Other taxes payable	(52,741)	18,412
Cash generated from operations	1,553,883	2,522,962
Interest received	1,210	9,491
Income taxes paid	(247)	(927)
Contribution to retirement plan	(1,999)	-
Interest and other financing charges paid	(29,096)	(50,986)
Net cash flows provided by operating activities	1,523,751	2,480,540
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(60,235)	(28,080)
Decrease (increase) in other noncurrent assets	(22)	12,705
Proceeds from sale of property, plant and equipment	171	692
Net cash flows used in investing activities	(60,086)	(14,683)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	1,056,000	2,509,000
Payments of:		
Short-term borrowings	(1,519,000)	(4,128,100)
Long-term borrowings	(58,824)	-
Lease liabilities	(21,184)	(17,753)
Cash dividends	(2)	(13)
Net cash flows used in financing activities	(543,010)	(1,636,866)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(27)	(523)
NET INCREASE IN CASH AND CASH EQUIVALENTS	920,628	828,468
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	354,131	224,475
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P1,274,759	P1,052,943

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

CERTIFIED CORRECT:


CYNTHIA M. BAROY
VP and Chief Finance Officer

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

	Note	Capital Stock		Additional Paid-in Capital	Equity Reserves		Retained Earnings		Treasury Stocks		Total
		Common	Preferred		Reserve for Retirement Plan	Cumulative Translation Adjustment	Appropriated	Unappropriated	Common	Preferred	
As of January 1, 2020 (Audited)		P345,625	P53,438	P2,539,454	(P369,433)	P57,963	P2,500,000	P4,662,727	(P1,947,198)	(P722,775)	P7,119,801
Share in other comprehensive income of joint ventures		-	-	-	-	(41,199)	-	-	-	-	(41,199)
Net income		-	-	-	-	-	-	474,353	-	-	474,353
Total comprehensive income for the period		-	-	-	-	(41,199)	-	474,353	-	-	433,154
Cash dividends and distributions:											
Common		-	-	-	-	-	-	(71,582)	-	-	(71,582)
Preferred		-	-	-	-	-	-	(12,295)	-	-	(12,295)
Total cash dividends and distributions	5	-	-	-	-	-	-	(83,877)	-	-	(83,877)
As of March 31, 2020 (Unaudited)		P345,625	P53,438	P2,539,454	(P369,433)	P16,764	P2,500,000	P5,053,203	(P1,947,198)	(P722,775)	P7,469,078
<hr/>											
As of January 1, 2019 (Audited)		P345,625	P53,438	P2,539,454	(P241,483)	P42,286	P2,500,000	P3,694,429	(P1,947,198)	(P722,775)	P6,263,776
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16		-	-	-	-	-	-	(12,044)	-	-	(12,044)
As of January 1, 2019, as adjusted		345,625	53,438	2,539,454	(241,483)	42,286	2,500,000	3,682,385	(1,947,198)	(722,775)	6,251,732
Share in other comprehensive income of joint ventures		-	-	-	-	7,923	-	-	-	-	7,923
Net income		-	-	-	-	-	-	615,927	-	-	615,927
Total comprehensive income for the period		-	-	-	-	7,923	-	615,927	-	-	623,850
Cash dividends and distributions:											
Common		-	-	-	-	-	-	(71,585)	-	-	(71,585)
Preferred		-	-	-	-	-	-	(368,853)	-	-	(368,853)
Total cash dividends and distributions	5	-	-	-	-	-	-	(440,438)	-	-	(440,438)
As of March 31, 2019 (Unaudited)		P345,625	P53,438	P2,539,454	(P241,483)	P50,209	P2,500,000	P3,857,874	(P1,947,198)	(P722,775)	P6,435,144

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

CERTIFIED CORRECT:

CYNTHIA M. BARAY
VP and Chief Finance Officer

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

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (“the Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended March 31, 2020 (with comparative figures as of December 31, 2019 and for the period ended March 31, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE**2020 vs. 2019**

On March 8, 2020 under Proclamation 922, the Office of the President declared a state of public health emergency due to the Covid-19 pandemic. On Mar 16, 2020, the National government imposed Enhanced Community Quarantine in Luzon and certain parts of the country. Subsequently, the Local Government Units (LGUs) ordered liquor bans prohibiting purchase and consumption of alcoholic beverages.

The Group, being engaged in the manufacture and sale of alcoholic beverages, has been affected by such proclamation. Given the restricted mobility and curtailed economic activities, the Group’s revenue declined by 10% compared to same period last year. Likewise, cost of sales and gross profit also decreased by 8% and 14%, respectively. Selling and administrative expenses is at par versus last year.

Interest expense and other financing charges reduced by 37% due to partial settlement of both short term and long-term loans.

The Group discontinued recognition of share in profit or loss of Thai joint venture since the investment is already zero.

Lower tolling income and scrap sales contributed to the decrease in other income by 17%.

Consolidated net income as at the end of first quarter dropped to P474 million, 23% lower than last year of the same period.

2019 vs. 2018

The Group ended the first quarter of 2019 with consolidated revenues of P8,265 million, up by 28% compared to same period in 2018 due to volume improvements of core brands Ginebra San Miguel and Vino Kulafu. Likewise, gross profit grew by 42% mainly due to lower cost of raw materials.

Selling and administrative expenses increased by 10% on account of higher spending in advertising and promotion, delivery expenses and personnel costs.

Interest income increased by 59% due to higher level of money market placements and higher interest rates as compared to last year of the same period.

Other income raised to 127% on account of higher tolling income.

As a result, the first quarter performance registered a net income of P616 million, 141% higher than year ago net income of P225 million.

II. FINANCIAL POSITION

2020 vs. 2019

Significant increase of 260% in cash and cash equivalents is caused by the loan proceeds, availed to support cash requirements during the enhanced community quarantine imposed by the government.

Trade and other receivables decreased by 18% as a result of improved collection of trade and non-trade receivables. Likewise, inventories also decreased by 9% driven by lower production towards the end of first quarter.

The increase in excise tax and recognition of 2020 retirement contribution brought the prepaid expenses and other current assets up by 20%.

Investment in joint ventures declined by 71% resulting from the effect of exchange rate fluctuation during the quarter which in turn caused the decreased in cumulative translation adjustment.

The company continued to settle both its short-term and long-term obligations resulting to a reduction by 31% and 9%, respectively.

On the other hand, income and others taxes payable increased by 20% due to recognition of first quarter income tax payable.

2019 vs. 2018

Cash and cash equivalents increased by 369% due to increase in money market placements resulting from higher collection as compared to last year.

Inventories decreased by 17% due to growth in the demand of the core brands.

The balance of Right-of-use (ROU) assets of P218 million mainly represents the amount of the Group's various operating lease agreements as as result of the adoption of PFRS 16.

Notes payable reduced by 65% as the company continued to settle its short-term obligations thru efficient collection and management of funds. Portion of the company's short-term loan was also converted to long-term.

Accounts payable and accrued expenses increased by 45% mainly due to increase in purchases of raw materials and declaration of dividends payable.

The increase in Lease liabilities (current and noncurrent) by P255 million pertains to the recognition of lease liabilities for ROU assets due to the adoption of PFRS 16.

Meanwhile, income and other taxes payable raised to 101% versus last year as the company continues to generate higher taxable income.

Equity reserves increased by 19% as a result of translation adjustments on Thai joint venture assets.

Equity

The increase in equity for the period ended March 31, 2020 and 2019 is due to:

	March 31	
	2020	2019
<i>(In Millions)</i>		
Income during the period	P474	P616
Other comprehensive income (loss)	(41)	8
Adjustments due to Philippine Financial Reporting Standards	-	(12)
Cash dividends	(84)	(440)
	P349	P172

III. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	March 31	
	2020	2019
<i>(In Millions)</i>		
Net cash flows provided by operating activities	P1,524	P2,481
Net cash flows used in investing activities	(60)	(15)
Net cash flows used in financing activities	(543)	(1,637)

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

Net cash flows used in investing activities include the following:

	March 31	
	2020	2019
<i>(In Millions)</i>		
Additions to property, plant and equipment	(P60)	(P28)
Decrease in other noncurrent assets	(0)	13
Proceeds from sale of property, plant and equipment	0	1

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

	March 31	
	2020	2019
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	P1,056	P2,509
Payments of:		
Short-term borrowings	(1,519)	(4,128)
Long-term borrowings	(59)	-
Lease liabilities	(21)	(18)

The effect of exchange rate changes on cash and cash equivalents amounted to (P0.03) million and (P0.52) million for the periods ended March 31, 2020 and 2019, respectively.

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures used by the Group. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II, "Financial Performance" of the Management Discussion and Analysis, for the discussion of certain computed Key Performance Indicators.

KPI	March 31, 2020	December 31, 2019
Liquidity: Current Ratio	1.50	1.43
Solvency: Debt to Equity Ratio Asset to Equity Ratio	0.99 1.99	1.06 2.06
Profitability: Return on Average Equity Interest Rate Coverage Ratio	26% 21.43	25% 16.27

KPI	Period Ended March 31	
	2020	2019
Operating Efficiency: Volume Growth Revenue Growth Operating Margin	-14% -10% 9%	24% 28% 12%

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

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

**Annualized for quarterly reporting.*