ANNUAL REPORT
**2019**

GINEBRA SAN MIGUEL
SINCE 1834

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# Financial Highlights

In Thousand Pesos, except Per Share Data

## Net Revenue

| | |
|---|---|
| 2019 | 29,063,235 |
| 2018 | 24,834,987 |

## Net Income

| | |
|---|---|
| 2019 | 1,671,788 |
| 2018 | 1,053,039 |

## Basic Earnings Per Share

| | |
|---|---|
| 2019 | 5.67 |
| 2018 | 3.51 |

## Stockholders' Equity

| | |
|---|---|
| 2019 | 7,119,801 |
| 2018 | 6,263,776 |

## Stockholders' Equity Per Share*

| | |
|---|---|
| 2019 | 22.31 |
| 2018 | 19.63 |

**Based on the number of shares outstanding at the end of each year*

# Message to Stockholders

*Fellow stockholders,*

## Pilipino Ako.
## Ginebra Ako.

As we write this message, we find ourselves in anxious times. Like many companies around the world, we have been following the news and advice around COVID-19 that has continued to evolve quickly. As much as we have been trying to keep things business as usual, we have had to accept that for now, this is impossible, and that our responsibility as Ginebra San Miguel and as a member of the San Miguel Group is to do whatever we can to help our country and our countrymen survive this health crisis.

Prior to the lockdown of Metro Manila and Luzon, we began shifting production away from our flagship, Ginebra San Miguel, to a disinfectant 70% ethyl alcohol that, very early into the crisis, was donated by the thousands of liters to public and private hospitals, local government units, government agencies, parishes and quarantine checkpoints.

We are proud that your company was among the first to step up to the challenge of supporting our doctors and medics and other frontliners who continued to work, despite the threat to their own health.

In the past, we have always worked tirelessly to deliver for our customers—in the months of March and April, we applied that same dedication to a higher purpose—one that will forever change us as a company and as individuals. We thank our employees, particularly our very own frontliners, those who worked long shifts to ramp up daily production of alcohol from 7,000 liters to 100,000 liters in the span of just a few days. We thank our third-party suppliers who loaded the vans and our employees who reported to the workplace every day without complaint.

**We always knew we had the best team, but we are even more certain of that now. The same heroic response to COVID-19 was the same spirit that allowed us to turn out excellent results in 2019.**

We always knew we had the best team, but we are even more certain of that now. The same heroic response to COVID-19 was the same spirit that allowed us to turn out excellent results in 2019.

Total sales volumes grew 14% to reach 35.9 million cases, our highest in nine years; consolidated revenue rose 17% to P29 billion. With an emphasis on efficient execution, our company delivered a net income of P1.67 billion, 59% higher than the previous year, and the highest recorded in 15 years. We have so much to be grateful for.

While still focused on our long-term goal of regaining market leadership, for 2019, we focused much of our energies into strengthening collaborations with our business partners and everyone across our supply chain.

Our sales and marketing efforts dovetailed into one strategy and as a result, our flagship brand Ginebra San Miguel continued its growth streak. Vino Kulafu, our main brand in the Visayas-Mindanao regions, turned in robust gains. GSM Blue exceeded the million-case level, with its "Mojito" variant almost doubling volumes from the previous year.

Our new "One Ginebra Nation" campaign was a great hit with consumers. Our emerging brand, GSM Blue Flavors, is also seeing rising demand. We continue to craft strategies and programs that will allow our company to thrive despite competition and changing market dynamics, for the longer-term.

We focused on geographic expansion and rolled out localized distribution strategies to reach a broader set of consumers. We supported these efforts with consumption-generating programs and ad campaigns that strengthened our brand equity further.

Our margins were at their healthiest in recent memory thanks to improved efficiencies throughout our supply chain and in our bottling operations. Costs were kept low through broader sourcing of alcohol and molasses. Process innovation resulted to higher yield at the distillery. All these initiatives tempered the rise in production costs particularly at a time when prices of local molasses were soaring as they continued to be used for fuel ethanol.

Despite the uncertainty that the future holds, we have no doubt we will overcome this COVID-19 challenge, as we have so many times before.

Our business continues, we will implement all our plans, we will take care of our employees, and we will do what it takes to help our country get back on its feet. *Pilipino Ako. Ginebra Ako* was never just a slogan to us, but a deeply held belief and one we saw our employees rally around in the days of the lockdown. COVID-19 was a crisis like any other we've faced in our lifetime, but it was also a turning point for Ginebra.

Ginebra is one with the nation.
Sama-sama tayo sa laban.

**Eduardo M. Cojuangco Jr.**
Chairman and CEO

**Emmanuel B. Macalalag**
General Manager

Eduardo "Danding" Murphy Cojuangco, Jr.
June 10, 1935 - June 16, 2020

Ginebra San Miguel Inc. (GSMI) joins the SMC community in mourning the passing of our Chairman & Chief Executive Officer Eduardo M. Conjuangco Jr.

ECJ, as we fondly call him, has worn many hats throughout his life. A philanthropist who gave the gift of education to teachers and students, and an ardent supporter of Philippine sports and basketball who restored the image of the country in Asia.

As a businessman, ECJ has guided San Miguel for decades with the values he espoused – Malasakit and love of country.

With Ginebra, ECJ shared the sense of community, of belonging to a barangay – a family working together as one. He inspired us by exemplifying the values that we hold dear – *tapang, pagiging Ganado, Malasakit* and Never Say Die.

Indeed, ECJ's immense and numerous contributions to the SMC Group and to various industries have made a great impact on the Philippines and helped uplift the lives of many Filipinos. He was a true Kabarangay who took pride in being part of Ginebra and in being a Filipino.

# Responding to the call of the times


*To produce disinfectant alcohol, GSMI's production plants had to be retooled and separate production lines had to be set-up.*

When on March 15, 2020 the Philippine government placed the entire Luzon under Enhanced Community Quarantine (ECQ) to stem the spread of the COVID-19 virus, virtually all economic activity in the country's largest island stopped.

Faced with a health crisis of unprecedented magnitude, we at Ginebra San Miguel Inc. (GSMI) found ourselves in the unique position to provide help to government and medical frontliners.

Our vice chairman, Ramon S. Ang made the call to reconfigure our liquor manufacturing into the production of disinfectant 70% ethyl alcohol. With this, GSMI became the first Philippine company to dedicate its entire operations to fighting COVID-19.

## THE BIG SHIFT

With fears of a global pandemic already upon the country since February, panic buying of disinfectant alcohol had already depleted supplies by the time ECQ was announced. Alcohol is among our medical frontliners' first line of defense against the virus. If we were to slow the spread of the virus, alcohol had to be made available to as many medical and healthcare practitioners and Filipinos as possible.

Reconfiguring our plants to put up new and separate lines for the production of 70% ethyl alcohol was not a simple undertaking. We started with a small batch at our Cabuyao Plant in Laguna, initially, to test the alcohol and ensure our facilities and employees would have enough to take care of their own needs and not take away from the already dwindling local supply.

Preparations to install the necessary equipment for a separate production line started shortly before ECQ was even announced. While we had the primary raw materials on hand, some inputs were not readily available.

Securing these materials became extra challenging under the ECQ, as suppliers suspended their operations, and the transport of raw materials was also hindered by quarantine restrictions.

And yet, despite limitations, we were able to scale up production in a matter of days. With production of our brands temporarily put on hold, key Production, Quality Assurance, and Logistics personnel at our Cabuyao Plant started 24/7 production of alcohol and delivering these to hospitals, local government units, and checkpoints.

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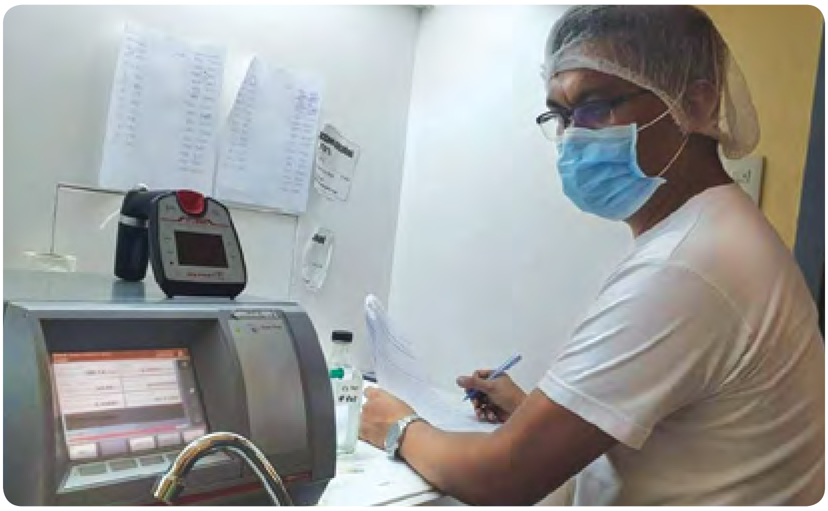


*Procurement of equipment, raw materials, ingredients and packaging materials followed the same stringent quality process for GSMI's liquor products.*

We scaled up production, mandating all our facilities nationwide to produce the same alcohol, in order to expand our reach within and beyond Luzon. With the eventual coming online of alcohol production in our facilities in Isabela, Pangasinan, Albay, Cebu, and Negros Occidental, we were able to ramp up capacity from our initial 7,000 liters per day to over 100,000 liters per day.

In order to expedite deliveries and reach a wider area, our sales group was also activated to help the logistics team deliver alcohol to remote locations throughout Luzon, Visayas and Mindanao.

As of June 10, we have produced 1.29 million liters of alcohol and donated all of this to various institutions.

These efforts wouldn't have been possible without our own heroes – our own frontline employees who went above-and-beyond to serve others.


*Logistics and sales teams ensure the immediate delivery of alcohol to hospitals, local government units, parishes and the frontlines.*

**With the eventual coming online of alcohol production in our facilities in Isabela, Pangasinan, Albay, Cebu, and Negros Occidental, we were able to ramp up capacity from our initial 7,000 liters per day to over 100,000 liters per day.**

## MALASAKIT AT ITS BEST

Malasakit — empathizing with others and going out of one's way to help — is a Filipino value that has long been ingrained in the GSMI culture. We adopt a mindset of malasakit in the performance of our daily work, in our dealings with our colleagues and partners, and in how we live our daily lives.

Everything we've done during this crisis is a result of our malasakit.

Whether on the frontlines or from their homes, employees strived to do their part, to meet deliverables, sustain business operations, or contribute to efforts to provide for the needs of medical frontliners and those less-fortunate.

In the same way, GSMI also made sure to provide for the needs of employees and third-party partners in the plants tasked with producing alcohol. They were given full salaries, protective equipment, food and accommodations.

These efforts by our company and fellow employees prove that malasakit, in our organization, is not just an empty slogan.

Our vice chairman Ramon S. Ang could not have said it any better: "At this point, what is more important are lives, not money. We can make money again, but life, once you lose it, it's gone forever. So between life and money, I will choose life."

These efforts by our company and fellow employees prove that malasakit, in our organization, is not just an empty slogan.



*Everyone is contributing and paying it forward in their own way. GSMI plants setup free handwashing stations for frontliners while Barangay Ginebra San Miguel players volunteered to repack Personnel Protective Equipment (PPEs) for donation.*

## Our BOTEful PROJECT
# Sustainability in a bottle


*GSMI, in partnership with the San Miguel Foundation (SMF), provides a sustainable solution to waste reduction through its 'Boteful Project' bottle retrieval program that also involves communities as active partners in the initiative. Batanes Vice Governor Ignacio Villa (center) officially receives a sample 'padyak,' together with barangay representatives.*

As a leader in the Philippine liquor market, Ginebra San Miguel Inc.'s (GSMI) products reach even the most remote province. There's nothing that is off the beaten path when it comes to where our products can be found and because of this, retrieving our glass bottles is a challenge we have chosen to take on.

Our commitment to sustainable development through responsible business practices —reduce our carbon footprint and generate livelihood — has resulted in an efficient recycling process for our second-hand bottles.

As many of our bottles end up in junk shops, we've put in place a system to retrieve, consolidate and send them to partner bottle washers for sorting and pre-washing. After a series of quality checks, the bottles that pass our cleaning standards are reused and returned to the system. Rejects are turned into cullets, sold to scrap buyers, and used as raw material to make new bottles.

In Cagayan and Batanes, two of GSMI's biggest-selling markets in North Luzon, bottle retrieval rates used to be very low, owing to remoteness, limited access to transportation, and the lack of organized labor.

In Batanes, where more people drink gin than any other province in the Philippines, an estimated 600,000 used bottles was left uncollected annually.

**With the success of this pilot, we replicated the Boteful Project in Batanes, with the goal of providing locals both livelihood and food sufficiency.**

## MORE THAN RECYCLING

To help provide a sustainable solution to waste management in these provinces, GSMI launched the "Boteful Project," in partnership with the San Miguel Foundation.

Under the program, communities are enlisted as active partners in bottle retrieval. In the process, they not only take care of their surroundings, they are also able to improve their living conditions through rewards that come in the form of community projects. As such, the project also complements the local government's environment and development goals.

Barangay Maura in Aparri, Cagayan was chosen as the pilot site for the project. GSMI provided 11 pedicabs to barangay zone leaders to help them in bottle retrieval. In just a few months after the launch, the community was able to collect and turn over 6,000 used bottles. In return, GSMI provided them six units of CCTV cameras and a 42-inch LED TV. Local law enforcement officials are now able to monitor the peace and order situation and keep the community of over 7,000 safe.

With the success of this pilot, we replicated the Boteful Project in Batanes, with the goal of providing locals both livelihood and food sufficiency.

In Batanes, GSMI provides 30 cavans of rice to 300 families, in exchange for every 30,000 bottles returned to the company. What makes this project unique is the fact that the rice given comes from the local harvest. The project has boosted people's incomes while guarantees them sufficient rice supply.


*The 'Boteful Project' gives back to the communities and Ginebra San Miguel's loyal consumers by providing an alternative source of livelihood and a means to raise funds to support community projects on peace and order, and food sufficiency.*

## A SUSTAINABLE CYCLE

As a result of the reduction of solid waste and the improvement of peace and order in Brgy. Maura, the communities are now able to live in cleaner, healthier and safer surroundings.

In Batanes, the project has not only boosted livelihood, but has also encouraged community involvement. It also strengthened partnerships between the community, businesses, and the local government. It spurred engagements with others who share the same advocacy, among them, Jun Gabotero, a dealer of Northern Cement Corporation who ships goods to Batanes. Seeing the value of the project, Gabotero agreed to partner with GSMI and the local government to transport the used bottles for free from Batanes to Damortis Port, the nearest port to GSMI's facility in Pangasinan, as his personal advocacy.

In the future, GSMI is looking to replicate the Boteful Project to other LGU's — helping to meet targets for solid waste reduction, waste disposal and job creation.

# One Ginebra Nation


*Ginebra San Miguel pays tribute to frontliners through a reimagination of its iconic bottle label originally painted by National Artist Fernando Amorsolo.*

For the past 185 years, Ginebra San Miguel has been part of Filipino life, a link between the past and present. To look through Ginebra advertising of decades past is to take a peek at various time periods in Philippine life and see how marketing one of the country's oldest brands has evolved and given rise to Ginebra's brand identity today: a symbol not just of Filipino excellence, but more importantly, resiliency, hope, courage, and passion.

Ginebra San Miguel's latest marketing campaign, "One Ginebra Nation" could not have come at a better time. Like much of the world, the whole nation continues to grapple with the COVID-19 global pandemic. In this time of crisis, the campaign's message of unity and togetherness holds much significance.

No imagery better shows our oneness with the country during this crisis than our own heroes — employees working hard, despite the temporary halt to our business — to help support the real heroes of this crisis, our medical frontliners, by producing disinfectant alcohol and delivering them to hospitals nationwide.

To further honor frontliners putting their lives at risk to save others, we took the iconic label of Ginebra San Miguel — which was designed by National Artist Fernando Amorsolo in his youth and has adorned our bottles for more than 100 years — and reimagined it as a tribute to doctors, nurses, security guards, factory workers, delivery and grocery personnel, all working through the crisis for the sake of all Filipinos.

The brand also released an online video tribute, highlighting the Filipino's "tapang na tunay," "malasakit," and "never-say-die" spirit in these unprecedented times. Our message, much like our slogan, is simple and true: We will get through this challenge as one nation.

*Scan the QR code using your smartphones to watch Ginebra San Miguel's tribute video 'A Salute to the Filipino Spirit' dedicated to COVID-19 frontliners.*

## NEW MARKETING CAMPAIGN

"One Ginebra Nation" was launched last December 31, 2019. The new campaign follows "Ganado sa Buhay," launched in 2014 and "Ginebra Ako," which we championed in 2017 and 2018. While our previous campaigns reflected our enthusiastic "can do" attitude in facing daily challenges in life, the new campaign highlights the Filipino's courage, and passion to help bring positive change to their families and communities.

In gaining new relevance to a broader market, the campaign calls on Filipinos to live our best ideals not just as part of one barangay or community, but as citizens of one nation.

The "One Ginebra Nation" advertisement was launched via TV, radio, and social media. Views on YouTube reached 8.3 million in just one month after its launch.

In gaining new relevance to a broader market, the campaign calls on Filipinos to live our best ideals not just as part of one barangay or community, but as citizens of one nation.

*'One Ginebra Nation' depicts Ginebra San Miguel as part of Filipinos' way of life, through triumphs and challenges.*

*The new marketing campaign 'One Ginebra Nation' aims to appeal to new drinkers as well as to keep its loyal drinkers.*

## LEGACY OF EXCELLENCE

The previous year, 2019, was also a significant one for the Ginebra San Miguel brand. Apart from celebrating its 185th anniversary, the brand also continued to chalk up achievements and awards in various fields, a tradition of excellence that can be traced back to the 1800s.

In 2019, for the 14th straight year, Ginebra San Miguel won the Gold Quality Label Award from the prestigious Monde Selection International Institute.

Ginebra San Miguel's "Ginebra Ako" marketing campaign also gained recognition from some of the country's most distinguished organizations. It earned the 2019 Quill Awards for Excellence in Marketing, Advertising, and Brand Communication given by the International Association of Business Communicators (IABC). It was also cited for its effective, relevant and relatable messaging. Meanwhile, at the Catholic Mass Media Awards (CMMA), the "Ginebra Ako" TV ad received a Special Citation for Branded TV Ad. Ginebra San Miguel was the only non-media entity recognized by the CMMA.


*The Marketing group, along with the rest of the contingent from GSMI, receives the Quill Award for Excellence in Marketing, Advertising and Brand Communication for the thematic campaign 'Ginebra Ako' at the 17th Philippine Quill Awards.*



*Ginebra Ako Awards Year 2 honor roll included social entrepreneur Illac Diaz of Liter of Light for Ginebra Ako Para sa Kalikasan, Rey Bufi of The Storytelling Project for Ginebra Ako Para sa Kabataan, Tagaytay City Jail Warden Aris Villaester for Ginebra Ako Para sa Paglilingkod, Pedro Abraham, Jr. of Kontra-GaPi for Ginebra Ako Para sa Entablado, and Lito Ramirez of the Philippine Volcanoes Rugby Team for Ginebra Ako Para sa Palakasan. The awards night, held in December at the Maybank Theater in BGC, was hosted by RJ Ledesma and former Miss Universe and Ginebra San Miguel 2019 Calendar Girl Pia Wurtzbach.*

## CONNECTING WITH CONSUMERS

Celebrity endorsers remain a potent tool in enhancing brand awareness and reach.

Last year, GSMI introduced a new batch of endorsers that we believe will help us connect better with various segments of the market. These include actress Sanya Lopez, who was also named Ginebra San Miguel 2020 Calendar Girl; stand-up comedian Alex Calleja for GSM Premium Gin, and actress and social media influencer Sue Ramirez for GSM Blue, whose catchy "I Choose Mojito" music marketing campaign helped the brand achieve growth in sales volumes last year. For Primera Light Brandy, which also showed momentum towards growth, we tapped actor Matteo Guidicelli to represent the brand.

Capitalizing on the popularity of our professional basketball team, the company also celebrated last year Barangay Ginebra San Miguel's 40 years in the Philippine Basketball Association (PBA). The "Ginebra Ako Never-Say-Die Jersey Promo" served as a tribute to basketball living legend Robert Jaworski, Sr. and to the legions of Barangay Ginebra fans who have embraced the team through the decades. Aside from the Jaworski jersey, Ginebra also brought in the jerseys of fan favorites Scottie Thompson, Justin Brownlee, and the duo of Jayjay Helterbrand and Mark Caguioa.


*Basketball living legend Robert Jaworski leads the celebration for Barangay Ginebra's 40 years in the PBA.*

*Ginebra San Miguel names up-and-coming actress Sanya Lopez as its newest calendar girl.*

*Actor Matteo Guidicelli is the newest celebrity endorser for Primera Light Brandy.*

Meanwhile, the Ginumanfest music festival and game show, an annual crowd drawer since 2011, continued to draw huge audiences in its tour of the regions. Aside from guest appearances of celebrity endorsers, Ginumanfest showcases the best in Filipino talent, gathering famous OPM (Original Pilipino Music) acts and regional talents on one stage.

Vino Kulafu, another heritage brand, launched its "Lakas sa Magandang Bukas" campaign. Vino Kulafu also brought back its successful "Dosenang Lakas, May Instant Pabuenas Under-the-Cap and Crown Promo", offering bigger prizes, including an instant cash prize of P100,000. With all these efforts, Vino Kulafu remained unchallenged in the Chinese wine category.

To honor our modern-day heroes, Ginebra San Miguel also staged for the second straight year the Ginebra Ako Awards, which aims to recognize the efforts of ordinary Filipinos whose efforts to make a difference in their communities and in various sectors make them extraordinary.

Apart from personifying Ginebra San Miguel's brand values, awardees also embody our company values of doing what is right and what is best, pushing innovation and sustainability, helping other people succeed, and being a good neighbor by showing empathy and "malasakit" for others.

# Portfolio of Beverages


GINEBRA SAN MIGUEL
GSM, Inc.
PRODUCT OF THE PHILIPPINES
GINEBRA S. MIGUEL
GIN
80 PROOF
GINEBRA SAN MIGUEL, INC.
PHILIPPINES
SINCE 1834
700 mL


**Ginebra San Miguel**

Frasquito 350 mL
Frasco 700 mL
Round 350 mL
Angelito 250 mL


**G.S.M. Blue Light Gin**
Solo 350 mL
Long Neck 700 mL

**G.S.M. Blue Flavors**

**Gin Pomelo**
**Mojito**
**Margarita**
Solo 350 mL
Long Neck 700 mL


**Ginebra San Miguel Premium Gin**

750 mL


**Antonov Vodka**

700 mL

**Vino Kulafu**

Classic 350 mL
Long Neck 700 mL



**Primera Light Brandy**

Long Neck
750 mL


**Añejo Gold Rum**

Solo 350 mL
Long Neck 700 mL


**Tondeña Manila Rum**
(for export only)

Dark, Gold, Silver
750 mL


**Don Enrique Mixkila**

700 mL

# Board of Directors

**Eduardo M. Cojuangco, Jr.**
*Chairman & Chief Executive Officer*

**Ramon S. Ang**
*President*

**Francisco S. Alejo III**

**Leo S. Alvez**

**Aurora T. Calderon**

**Gabriel S. Claudio**

**Mario K. Surio**

**Minita V. Chico-Nazario**
Lead Independent Director

**Aurora S. Lagman**
Independent Director

# Corporate Governance

Ginebra San Miguel Inc. ("GSMI" or the "Company"), its Board of Directors (the "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 to attain corporate goals and create and sustain 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 "CG Manual"). Since its adoption, the CG Manual has undergone a number of amendments 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 CG Manual on May 9, 2017.

## BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Board. In the performance of its fiduciary roles, duties and responsibilities, the Board has always conducted itself with utmost honesty, integrity, transparency, accountability, and fairness, with the objective of ensuring that the interest of all stakeholders are considered and protected.

The Company is headed by a competent Board, which has the combined knowledge, expertise and experience of its members that enabled the Company to sustain its competitiveness and profitability, in a manner consistent with its corporate objectives and the long-term interests of its stakeholders.

The Board is composed of nine (9) directors who are elected annually at the regular meeting of the stockholders ("RSM") scheduled on the last Thursday of May, unless a different date is fixed by the Board. Two (2) members of the Board are 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. The Board, conformably with the Company's By-Laws, is headed by a Chairman who is at the same time the Chief Executive Officer ("CEO") of the Company, a structure that has proven to be appropriate and effective for the Company. While the roles of the Chairman and CEO are combined, proper checks and balances are in place to ensure that the Board obtains the benefit of independent views and perspectives. Moreover, the Board has a Lead Independent Director to ensure that the Independent Directors shall be free to express and advocate independent views and perspectives, and that abuse of power or authority and potential conflict of interest are avoided.

During the 2019 RSM that was held on May 30, 2019, the stockholders elected six (6) male and three (3) female directors. Director Eduardo M. Cojuangco, Jr. was elected as the Chairman of the Board, while Directors Aurora S. Lagman and Minita V. Chico-Nazario were the elected Independent Directors, with the latter being elected by the Directors as the Lead Independent Director of the Company. Directors Ramon S. Ang, Francisco S. Alejo III, Aurora T. Calderon, Leo S. Alvez, Gabriel S. Claudio and Mario K. Surio, completed the 9-member Board of the Company.

### Board Committees

To support the effective performance of the Board's functions, the Board has four (4) committees, namely:

***Executive Committee.*** Acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, except as specifically limited by the Board or the Company's By-Laws.

***Audit and Risk Oversight Committee.*** Performs the functions of the Audit, Board Risk Oversight and Related Party Transactions Committees. Among others, it enhances the oversight capability of the Board over the Company's financial reporting, internal control system, internal and external audit process and compliance with applicable laws and regulations. It likewise has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place to guide the Board in arriving at well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities. Also, it oversees the implementation of the system for identifying, monitoring, measuring, controlling and reporting related party transactions.

***Corporate Governance Committee.*** Assists the Board in the performance of its corporate governance responsibilities. Among others, it oversees the implementation of the corporate governance framework and periodically reviews the same to ensure that it remains appropriate. It also pre-screens and shortlists candidates for nomination to become a member of the Board in accordance with the qualifications and disqualifications for directors set out in the CG Manual and other applicable laws, rules and regulations, including issuances of the SEC.

***Executive Compensation Committee.*** Advises the Board on the establishment of formal and transparent policies and practices on remuneration of directors and executives. It provides oversight function over remuneration of senior management and other key personnel, ensuring consistency with the Company's culture, strategy and control environment.

### Board and Committee Performance

Committed to its fiduciary duties and responsibilities, the Board members meet at least five (5) times a year through meetings held on periodic intervals at such places as may be designated in the notice. Considering the operations of the Company, as well as its reportorial obligations to regulatory bodies, schedule of meetings of the Board, Audit and Risk Oversight Committee and Corporate Governance Committee is determined and relayed to the directors ahead of time to enable them to arrange their respective schedules and see to it that they are available to attend the said meetings. The different Board Committees also meet, as and when necessary. Prior to the date of each meeting, the Corporate Secretary sends notices and agenda to each Director, together with other information/documents, to enable the Directors to actively participate and express their opinions, and for valuable discussions to take place during meetings.

In 2019, the Board held four (4) regular meetings, one (1) organizational meeting and one (1) special meeting. The Board members also attended the 2019 RSM, as shown in the table below:

### 2019 BOARD MEETING ATTENDANCE

| BOARD OF DIRECTORS | DESIGNATION | MAY 30, 2019 | | BOARD MEETING ATTENDANCE |
|---|---|---|---|---|
| | | REGULAR STOCKHOLDERS' MEETING (RSM) | ORGANIZATIONAL MEETING | |
| Eduardo M. Cojuangco, Jr. | Chairman and Chief Executive Officer | 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 |

As for the Board Committee Meetings, details of the attendance of the Directors in the Committee meetings in 2019 are shown below:

### 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 |
| 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) |
| Ferdinand K. Constantino | | 5/5 | 2/2 | |

In 2019, each Director received a per diem of Ten Thousand Pesos (Php10,000.00) per attendance in Board and Committee meetings of the Company.

### Board Training and Self-Assessment by the Board and Audit and Risk Oversight Committee

The members of the Board keep themselves abreast with industry developments and business trends. Moreover, the Company's Compliance Officer regularly apprise the directors during Board meetings, on the relevant laws, regulations, government issuances, and relevant industry developments and operations of the Company, and advises the Board on all relevant issues as they arise.

The Directors also regularly attend a seminar or program on corporate governance at least once a year. In 2019, all the Directors 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 that 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 Forms, the Board has substantially met its mandate.

The members of the Audit and Risk Oversight Committee also accomplished an Internal Self-Rating form for the purpose of evaluating the said Committee's performance for 2019. The Form covers the following areas: (1) Structure, Operation and Reporting Process; (2) Oversight on Financial Statements and Financial Reporting; (3) Oversight on Internal Controls and Risk Management; (4) Oversight on Internal Audit; (5) Oversight on External Audit; and(6) Compliance with Legal and Regulatory Requirements. The Form requires the Committee members to read each statement and rank their response on the 5-point scale directly below each statement with "1" indicating that 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 Forms, the said Committee has also substantially met its mandate.

### Management

The Company's Management is under the leadership of Chairman and CEO Eduardo M. Cojuangco, Jr. and President Ramon S. Ang, with the latter being assisted by General Manager Emmanuel B. Macalalag. The Chairman - CEO is responsible for the general supervision, administration and management of the business of the Company. He presides at the meetings of the Directors and stockholders and exercises such powers and performs such duties and functions as the Board may assign to him. The President supervises and directs the day-to-day business affairs of the Company, while the General Manager reports to the President and he oversees the overall management of the Company's various departments with the aim of continuously improving the Company's business operations and attainment of corporate objectives. The Senior Management of the Company, who are composed of individuals with knowledge and expertise in their respective fields, provide valuable support in achieving the Company's corporate goals and objectives.

## ACCOUNTABILITY AND AUDIT

The Company has internal and external auditors, whose respective reports and recommendations are considered by the Company in conducting its business affairs. The Board ensures that an independent audit mechanism is in place to monitor the adequacy and effectiveness of the Company's governance, operations and information systems, including the reliability and integrity of financial and operations information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts. The Board also established the Audit and Risk Oversight Committee to, among others, enhance the oversight capability of the Board over the Company's financial reporting, internal control system, internal and external audit process, and compliance with applicable laws and regulations. The said Committee performs oversight functions to both external and internal auditors of the Company.

### Internal Auditor

The Company's internal audit function is performed by Ginebra San Miguel Group Audit (the "GSMGA"), which is headed by the Chief Audit Executive, who reports functionally to the Audit and Risk Oversight Committee and administratively to the President and General Manager. The GSMGA provides independent, objective assurance and consulting services to add value and improve the operations of GSMI and its subsidiaries (hereinafter referred to as the "GSMI Group"). It also helps each function or organization in the GSMI Group accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The GSMGA is mandated to provide an independent risk-based assurance service to the Board, perform compliance audit, establish a risk-based audit plan, and review the efficiency and effectiveness of the internal control system of all areas of the GSMI Group, to name a few.

### External Auditor

The External Auditor of the Company for 2019 is R.G. Manabat & Co. ("KPMG"), an auditing firm duly accredited with the SEC. Through the conduct of an independent audit of the Company and provision of objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders, the External Auditor is able to help maintain the prevalence of an environment of good corporate governance as reflected in the Company's financial records and reports. The External Auditor regularly apprises the Audit and Risk Oversight Committee of the status of its audit.

KPMG's appointment as External Auditor was approved by the Board upon the recommendation of the Audit and Risk Oversight Committee, which appointment was subsequently approved by the stockholders during the RSM held on May 30, 2019. While KPMG has been the External Auditor of the Company for several years, such reappointment in 2019 is compliant with Part I (3) (b) (ix) of the Securities Regulation Code (the "SRC"), Rule 68, as amended, with respect to the re-engagement of the said audit firm and the rule on rotation for the signing partner every five (5) years or earlier. Representatives of the audit firm were present during the said RSM and were given the opportunity to respond to appropriate questions or make a statement, if they so desired. 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 P 8.1 million in 2019.

There were no disagreements with the Company's External Auditor on any matter relating to accounting and financial disclosures.

## DISCLOSURE AND TRANSPARENCY

The Company, as a publicly-listed company, with shares listed with The Philippines Stock Exchange, Inc. (the "PSE"), recognizes the importance of updating its stakeholders with relevant and Company-related information. Thus, it adheres to full disclosure and transparency in its transactions, and it does so by providing comprehensive, accurate, reliable and timely information through prompt filing of various reports, notices and documents (collectively, the "Corporate Disclosures") to the SEC and PSE and through regular investors' briefings. These Corporate Disclosures are likewise uploaded in the Company's website for easy access of the stakeholders. They refer to material information about the Company, i.e., anything that could potentially affect share price or its viability or the interest of its stockholders and other stakeholders such as financial results and position, acquisition or disposal of significant assets, material related party transactions, and shareholdings of Directors. Through these Corporate Disclosures, the Company is able to provide its stakeholders with a fair and complete picture of the Company's financial condition, results and business operations, as well as the quality of its corporate governance.

### Ownership Structure

The stakeholders are made aware of the shareholding structure of the Company through the numerous reports filed with the SEC and PSE. The Company files with the SEC the following reports which contain information about its ownership structure: General Information Sheet, SEC Form 17-A, Audited Financial Statements and Information Statement ("IS'). These reports are likewise submitted to the PSE. For the PSE alone, the Company regularly files the Top 100 Stockholders, Public Ownership and Foreign Ownership Reports by uploading the same in the PSE Edge Portal.

### Financial Reporting

Compliant with the requirements of the Securities Regulation Code, the financial results of the Company for the first three (3) quarters of the relevant year are disclosed to the stakeholders through SEC Form 17-Q filed with the SEC and PSE, within forty (45) days from the end of the relevant quarter. The Audited Consolidated Financial Statements for the latest completed financial year, which is included in Definitive Information Statement or SEC Form 20- IS (the "IS") that is distributed to the stockholders, are released and are duly disclosed to the SEC and PSE within fifteen (15) business days prior to the RSM. The financial information on these reports are also disclosed to the financial and investment analysts through the quarterly Investors' Briefing and ultimately to the investing public, as the presentation materials for the said briefing are also filed with the PSE.

The Company's financial reports are all prepared in compliance with the Philippine Financial Reporting Standards which are based on International Financial Reporting Standards issued by the International Accounting Standards Board. The Audited Parent and Consolidated Financial Statements as of December 31, 2019 of the Company were approved and authorized for submission and filing with the concerned regulatory bodies through a resolution of the Board on March 11, 2020.

### Related Party Transactions

The Company has significant transactions with related parties pertaining to purchases of containers, bottles and other packaging materials as well as the sale of liquor and by-products. It has also entered into various lease agreements with related parties as a lessor and lessee. These transactions are made in the ordinary course of business, at normal market prices and terms. Related party transactions (the "RPTs") are fully disclosed in the Audited Consolidated Financial Statements of the Company.

The Audit and Risk Oversight Committee evaluates on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in related parties are noted. It also evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

Conformably with the Material Related Party Transactions Policy of the Company, the Company, with the approval of the Board, engaged the services of Punongbayan and Araullo (the "P&A"), an external independent party, tasked to evaluate the fairness of the terms of transactions that may qualify as "Material RPTs". These are transactions with related parties that meet the materiality threshold in terms of transaction value amounting to a minimum of 10% of the total consolidated assets of the Company based on the latest audited financial statements of the Company. The P&A has determined that the Company's material RPTs in 2019 met the fairness test. Consequently, such transactions, upon the recommendation of the Audit and Risk Oversight Committee, were approved by the Board.

## STOCKHOLDERS' RIGHTS

### Dividends

The Company's Articles of Incorporation ("AOI") provides for the right of stockholders to dividends as and when declared by the Board at such rate or amount and period as may be fixed by the Board. 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 to further strengthen the rights of the stockholders to dividends.

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.

### Stockholders' Meeting

The Company recognizes that the stockholders' meeting, whether regular or special, is a great opportunity for stockholders to actually express their sentiments, opinions, as well as ask questions to the Board and Management. Thus, the Company sees to it that its stockholders are informed of the details of stockholders' meetings through the IS sent to each stockholder at least fifteen (15) business days before the scheduled date of the meeting. The IS contains the notice, date, time, venue and agenda of the meeting, information pertaining to proxies, deadline for submission thereof and date of their validation as well as other relevant information about the Company. For the 2019 RSM, the IS was sent to the stockholders on May 8, 2019.

The draft minutes of stockholders' meetings of the Company are uploaded in the Company's website within five (5) business days from the date of the relevant meeting.

### Voting Rights and Voting Procedures

Each share, whether common or preferred, registered in the name of the stockholder, entitles such stockholder to one (1) vote. Stockholders have the right to elect, remove, and replace Directors as well as vote on certain corporate acts in accordance with the Revised Corporation Code. In electing members to the Board, every stockholder is entitled to cumulate his votes in accordance with the provisions of law. Voting procedures on matters presented for approval to the stockholders in the RSM are set out in the IS.

### Pre-emptive Rights

All stockholders have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings, unless the same is denied in its AOI or an amendment thereto. Under the Company's AOI, stockholders do not have pre-emptive rights to subscribe to the convertible preferred shares or to subscribe to the common shares to be issued by the Company upon conversion of the preferred shares and the conversion of any notes issued to redeem such preferred shares. Subject to certain conditions and threshold on the percentage of shares allotted to be issued pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans (collectively, the "Plans"), stockholders do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its Officers and/or employees pursuant to such Plans.

## STAKEHOLDER RELATIONS

At the forefront of the Company's business principles is transparency. It applies this principle in all its dealings with its stakeholders, which include, among others, its customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates, and sees to it that their rights as established by law, contractual relations and through voluntary commitments, are respected.

The Company, through the different channels of communication, is always within easy reach. When the rights and interests of stakeholders are at stake, they can communicate with the Company to obtain prompt effective redress for the violation of their rights. Ensuring cooperation among the Company and its numerous stakeholders in creating wealth, growth and sustainability, is crucial to the Company's success.

### Right to Information of Stakeholders and Investor Relations

Transparency is manifested in the Company's Corporate Disclosures filed with the SEC and PSE, which relates to the Company, its Directors and Officers, as well as its operations and, transactions. Stakeholders can request for hard copies of these documents, as well as make inquiries through, among others, the Investor Relations Office of the Company and San Miguel Corporation (the "SMC").

The Company also holds combined Investors' Briefings with SMC and other SMC subsidiaries on a regular basis, the date and agenda for which are disclosed to the PSE at least three (3) days before the holding thereof. Materials for the said briefings are also disclosed to the PSE on the scheduled date of the briefing.

## EMPLOYEE RELATIONS

The Company believes that its greatest strength has always been its people and ensures that their interests are protected. The Company provides valuable benefits to its employees, ranging from medical, leave, insurance, work/life, learning and education, loan and retirement/separation benefits, over and above what is required by law. Extensive medical coverage is also provided to regular employees through an accredited Health Maintenance Organization, inclusive of outpatient, inpatient, emergency and preventive care; annual physical examination and dental care. Prescribed medicines are also provided to the employees at the Company's clinic free of charge. Subject to certain guidelines, various paid leaves are also provided to regular employees of the Company: vacation, sick and emergency leaves. Work-Life benefits in the form of rice ration, uniform, wedding gift for rank-and-file employees, and burial assistance for deceased employees and deceased dependents.

Consistent with its belief that its employees are its most valuable resource and its key competitive advantage, the Company is committed to (1) providing its employees with programs for their professional and personal growth; and (2) promoting a culture of open communication, teamwork, continuous improvement and learning. To be able to do this, the Company has programs geared towards learning and education namely: Education Program – whereby monetary assistance is given to regular employees who wish to pursue further studies for their career growth. Monetary assistance covers payment for tuition fees and subsidy of the cost of books; Professional Board Examination Incentive - wherein financial assistance equivalent to one month basic pay is given to an employee who passes a government board examination administered by the Professional Regulation Board that the Company considers to be a requirement for the employee's field of specialization or in technical fields considered as relevant to its operations and to the employee's career path; and various training programs.

Training programs of the Company are classified into formal and informal trainings. Formal training includes corporate training programs, functional/technical school program, and e-learning. Informal training, on the other hand, includes on-the-job training, developmental/special assignments, job rotation/ transfer, coaching and mentoring. Formal trainings are facilitated by the Company's Human Resources and Technical Schools and some external training providers. For this purpose, the Company is guided by the following curriculum:

- **Work Support Programs,** which are focused on general development, personal excellence, communication, creativity, innovation, and productivity, and customer orientation. These Programs are designed to develop employees' skills, help them perform effectively in their roles, and to foster team effectiveness and personal mastery;

- **Technical Exposure Programs,** that are designed to equip employees with understanding of the role/function of other units;

- **Technical / Functional Schools,** which are learning facilities organized and administered by a functional unit that provide technical knowledge to employees that are based on its school's curriculum. The Programs offered are designed to maintain and develop core skills required in specific functions of the business; and

- **Leadership and Management Programs,** that are designed to equip the Company's supervisors and managers with leadership skills

To ensure the development of the technical skills of its employees, functional/technical schools were organized, namely: Alcohol and Liquor Technology Institute, Manufacturing School, Procurement School, Logistics School, and Sales School. Even the Company's wholly-owned subsidiary, Distileria Bago, Inc., has its own technical school, the Distileria Bago, Inc. Technical School.

In 2019, the Company, among others, provided opportunities to its employees, as well as the employees of its subsidiaries, to attend the following training programs offered by SMC that cater to the employee and organization's needs:

- **SMC – Ancilla Management Development Program** - This is an eighteen-day, once-a-week, structured development program designed to provide the Company's identified high potential staff and supervisors learning opportunities to sharpen their leadership, organization, communication, decision-making and problem- solving skills, as well as other work support skills to prepare them for higher responsibilities in the organization;

- **SMC** – Ateneo Leadership and Management Development Program - This program aims to harness leadership and management potential, help transform managers into effective organizational change leaders and valuable members of the whole enterprise. The customized courses enrich cross-functional expertise and build general management perspective, providing young leaders the critical skills for success;

- **AIM Executive Management Development Program** -This program is tailored for executives and leaders who are constantly managing change to lead, inspire, and transform a hyper-connected workforce. The program primes the participating executive for self-awareness, personal mastery and transformation leadership in today's business context. The building block approach and progression of learning themes, modules and topics deliberately become more complex, as the participant engages co-participants, faculty, peers and colleagues as learning partners; and

- **Other Trainings** - Assertive Communication Skills, Distillery 101, Administrative Investigation and Grievance Handling, Crisis Management, Code of Champions, Train the Trainers, Art of Directing, Problem Solving Process, Sales and Distribution, Internal Control System, Road Safety and Defensive Driving. To ensure that the employees are updated with new trends, technologies and processes in the industry, the Company encourages its employees to participate/attend local and international conferences, forums, and events. The Company has also enrolled some of its employees to international institutions that offer programs related to distillation, gin or alcohol-making, raw material, and packaging.

The Company celebrates its anniversary by sponsoring an event where employees get to gather, mingle and have fun while at the same time honor employees who have been in the service for a substantial number of years, making the employees feel valued and appreciated. The Company also conducts and sponsors activities to promote wellness and camaraderie among peers through summer outings, as well as bowling and basketball tournaments. The Company not only focuses on work-related activities but also takes time and effort to celebrate important occasions - Valentine's Day, Mother's Day, Father's Day, and Christmas, making the employees feel special and important. The Company also introduced learning sessions on values and interest related topics namely: Social Responsibility, Sustainability, Calligraphy and Watercolor Workshop, and Phone Photography. The Company also encourages its employees to participate in meaningful activities such as the Shoe Box Gift Giving Project, where employees voluntarily donate shoe boxes filled with school supplies and personal hygiene items for distribution to residents of chosen communities and Brigada Eskwela where employees contribute time and effort to help rehabilitate identified school facilities.

## SIGNIFICANT COMPANY POLICIES

Over the years, the Company has adopted policies which are all geared towards promoting the best interest not only of the Company but also of its various stakeholders: stockholders, employees, customers and regulatory agencies. Some of the significant policies are the following:

***Dividend Policy.*** This policy provides that 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. "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.

**Conflict of Interest.** The Company implements a policy on Conflict of Interest which espouses the principle that Officers and employees have a duty to act in the best interest of the Company. This policy specifically requires Officers, Managers, and employees to: conduct business affairs with fairness; avoid granting undue personal favors; engage only in private activities or business consistent with responsibilities as officers and employees and not detrimental to the interest of the Company; refuse gifts that might connote bribery in any way; utilize Company property, funds, equipment and time solely for Company purposes, and recognize that all intellectual property and rights so created are owned by the Company; and seek prior Management clearance before engaging in outside work. In the event that any personal interest of an Officer or employee may conflict with the interest of the Company, proper disclosure through the accomplishment of the Full Business Interest Disclosure Form should be made, and a review by higher Management shall resolve the conflict.

**Code of Ethics.** The Company adheres to the SMC group-wide Code of Ethics that sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the Directors, Management, Officers and employees of the Company. The Company is firmly committed to the promotion of a culture that fosters and maintains the core values of fairness, transparency, accountability and integrity in the conduct of its business and expects each of its Directors, Officers and employees to observe with zeal such core values in the performance of their duties, in their relationships with fellow employees and in all their dealings with stockholders, customers, suppliers, government and the general public.

**Securities Dealing.** The Company's commitment to the highest standards of values, expertise and professionalism prompted the Company to adopt a Policy on Dealings in Securities. This policy mandates the Directors, Officers and employees of the GSMI Group to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy, as well as the requirements of the SRC. It sets out the conditions and rules under which the Directors, Officers and employees of the GSMI Group shall deal in securities of the Company. Under this policy, Directors, Officers and certain employees are considered to have access to "insider information", i.e. knowledge or possession of material non-public information about the Company by virtue of their functions and responsibilities. Therefore, such Directors, Officers and key employees with access to inside information are prohibited from trading in the Company's shares at any time when they have knowledge or possession of material non-public information about the Company, and during a specified time frame, or a "blackout period". The same prohibition applies even if the material non-public information refers to another company, so long as the same was obtained in the course of performing the duties as Directors, Officers or employee of the GSMI Group.

**Whistle Blowing.** Procedures have been established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a SMC group-wide Whistle Blowing Policy. The said policy provides that all complaints be ultimately referred to the Audit and Risk Oversight Committee, which complaints may be on anonymous basis and which shall be placed in confidential files and will be retained for seven (7) years or for such longer time as the said Committee may deem necessary. All communications received through the established channels will be kept confidential. The original copies or records of all communications will be available to any Audit and Risk Oversight Committee member, upon request. The said Committee will determine whether any action or response is necessary or appropriate in respect of a communication, and it will take or direct such action as it deems appropriate.

**Data Privacy.** The Company values the personal information of individuals and collects, stores and use the same only in accordance with law. To institutionalize the same, the Board approved a Personal Data Privacy Policy to ensure compliance with the requirements of the Data Privacy Act of 2012 and its Implementing Rules and Regulations. Pursuant thereto, the Company also appointed a Data Protection Officer who is responsible for ensuring the Company's compliance with applicable laws and regulations for the protection of data privacy and security.

**Material Related Party Transactions Policy.** It is the policy of the Company that all RPTs are conducted on an arm's length basis and under fair terms, in order that no shareholder or stakeholder is unduly disadvantaged and there is no prejudice to the interest of the stakeholders of the Company. The Board shall have the overall responsibility in ensuring that RPTs are handled in a sound and prudent manner, with integrity and in effective compliance with applicable laws, rules and regulations at all times, to protect the interests of the Company and its subsidiaries, and their shareholders and other stakeholders. The objectives of this policy are to mitigate or avoid conflict of interest and abusive transactions between related parties, and ensure that every RPT is reviewed, approved and disclosed in compliance with the requirements of the relevant governmental and regulatory agencies, such as the SEC.

Information about the foregoing policies can be found in the official website of the Company.

## COMPLIANCE SYSTEM

To ensure adherence to corporate principles and best practices, the Board has appointed a Compliance Officer who is responsible for monitoring compliance by the Company with the provisions and requirements of the CG Manual, relevant laws, issuances and rules and regulations of regulatory agencies. The Company's Compliance Officer is Atty. Virgilio S. Jacinto.

## WEBSITE

Other information about the Company may be viewed at http://www.ginebrasanmiguel.com.

## REPORT OF THE AUDIT AND RISK OVERSIGHT COMMITTEE

For the year ended December 31, 2019

The Audit and Risk Oversight Committee, was constituted by the Board of Directors (the "Board") to, among others, enhance its oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The Committee specifically performed the following in 2019:

- Recommended to the Board and endorsed for approval by the stockholders, the appointment of R.G. Manabat & Co. ("KPMG"), as the Company's independent External Auditor for the fiscal year 2019;
- Reviewed and approved the terms of engagement of KPMG for audit-related services provided or to be provided and the fees for such services;
- Reviewed and approved KPMG's Audit Plan for 2019;
- Reviewed, discussed and recommended for approval of the Board the Company's Separate and Consolidated Financial Statements for 2018, as well as the Company's SEC Form 17-Q or Quarterly Financial Statements for 2019 and such other reports required to be submitted to regulatory agencies in connection with such financial statements, to ensure that the information contained in such statements and reports presented a true and balanced assessment of the Company's financial position and condition and that such statements and reports complied with the regulatory requirements of the Securities and Exchange Commission (the "SEC") and applicable laws, rules, regulations and issuances of regulatory bodies;
- Reviewed and approved the Company's Internal Audit and Outsourcing Plan for 2019;
- Reviewed, discussed and recommended for approval of the Board the Material Related Party Transactions Policy of the Company as proposed by Management;
- Reviewed, discussed and recommended for approval of the Board the delegation of authority to appoint an External Independent Party to evaluate the fairness of the terms of the Material Related Party Transactions of the Company;
- Reviewed, discussed and recommended for approval of the Board the Material Related Party Transactions of the Company in 2019;
- As and when necessary, performed functions pertaining not only to audit, but also to risk oversight and related party transactions;
- Reviewed the adequacy, effectiveness and sufficiency of the Company's financial and internal controls and risk management systems, and ensured that, where applicable, necessary measures were taken to address any concern or issue arising therefrom; and
- Accomplished the Committee's Internal Self-Assessment Form for the purpose of evaluating its performance for 2019.
- Attended a Seminar on Corporate Governance in compliance with the SEC Memorandum Circular No. 2, Series of 2013.

The Committee exerted best efforts in fulfilling its responsibilities as set forth in its Charter and the Company's Manual on Corporate Governance, and substantially met its mandate in 2019.

**Minita V. Chico-Nazario**
Chairperson
Lead Independent Director

**Leo S. Alvez**
Member

**Aurora S. Lagman**
Member – Independent Director

**Francisco S. Alejo III**
Member

## 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

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.

KPMG

*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.

KPMG

- 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.

KPMG

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.**

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)

| | *Note* | **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)

| | *Note* | **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)

| | *Note* | **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)

| | | Capital Stock | | | Equity Reserves | | Retained Earnings | | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Additional Paid-in | Reserve for Retirement | Cumulative Translation | | | | | |
| | Note | Common | Preferred | Capital | Plan | Adjustments | Appropriated | Unappropriated | Common | Preferred | Total |
| **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*

| | | Capital Stock | | Additional Paid-in | Equity Reserves | | Retained Earnings | | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Common | Preferred | Capital | Reserve for Retirement Plan | Cumulative Translation Adjustments | Appropriated | Unappropriated | Common | Preferred | Total |
| 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)

| | *Note* | **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*

| | *Note* | **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.

<u>Adoption of New and Amended Standards and Interpretation</u>

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.

<u>Impairment of Financial Assets</u>
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.

<u>Classification of Financial Instruments between Liability and Equity</u>
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.

<u>Offsetting Financial Instruments</u>
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.

<u>Derivative Financial Instrument</u>
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.

<u>Investments in Joint Ventures</u>
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.

<u>Leases</u>

*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.

<u>Provisions</u>
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.

<u>Capital Stock and Additional Paid-in Capital</u>
*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.

<u>Retained Earnings</u>
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:

| | *Note* | **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:

| | *Note* | **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

GSMI 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:

| | ***Note*** | **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:

| | Note | 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:

| | Note | 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 GSMI 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 capitalizec 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:

| | *Note* | **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:

| | Note | 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 | **2019** | **P -** | **P -** | **P6** | **P -** | On demand; | Unsecured; no |
| Company | 2018 | 5 | - | 5 | - | non-interest | impairment |
| | 2017 | - | - | - | - | bearing | |
| Intermediate | **2019** | **109,642** | **255,044** | **5,746** | **69,005** | On demand; | Unsecured; no |
| Parent Company | 2018 | 20,960 | 235,913 | 5,396 | 7,565 | non-interest | impairment |
| | 2017 | 6,554 | 235,725 | 4,435 | 37,087 | bearing | |
| Parent Company | **2019** | **55** | **-** | **5** | **-** | On demand; | Unsecured; no |
| | 2018 | 6 | - | 6 | - | non-interest | impairment |
| | 2017 | - | - | - | - | bearing | |
| Under Common | **2019** | **461,483** | **6,119,006** | **156,299** | **1,197,133** | On demand; | Unsecured; no |
| Control | 2018 | 474,674 | 4,893,263 | 229,841 | 554,213 | non-interest | impairment |
| | 2017 | 228,178 | 3,822,255 | 169,778 | 646,770 | bearing | |
| Joint Venture | **2019** | **19,432** | **595,431** | **632,732** | **39,136** | On demand; | Unsecured; no |
| | 2018 | 20,703 | 1,036,147 | 623,649 | 64,337 | interest | impairment |
| | 2017 | 21,785 | 951,997 | 688,026 | 94,059 | bearing | |
| Associates | **2019** | **-** | **-** | **-** | **857,000** | 3 months; | Unsecured; no |
| of the Parent | 2018 | - | - | - | 522,100 | interest | impairment |
| Company | 2017 | - | - | - | 2,504,900 | bearing | |
| **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 | | |

a. 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.

b. 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:

   - Principal sum of THB250,000 together with interest of 5.5% per annum, which interest shall accrue on March 13, 2014.
   - Principal sum of THB50,000 together with interest of 5.0% per annum, which interest shall accrue on September 2, 2013.
   - Principal sum of THB25,000 together with interest of 5.0% per annum, which interest shall accrue on June 14, 2013.
   - Principal sum of THB75,000 together with interest of 3.0% per annum, which interest shall accrue on September 6, 2011.
   - 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:

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 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.

c. In 2011, EPSBPI entered into lease agreements to use various equipment for a period of three years with the option to renew after expiration of the lease term. Rental fees are payable on a monthly basis. In 2016, the lease agreements were extended for periods ranging from nine months to two years.

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:

| | *Note* | 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:

| | *Note* | 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** |

| 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 |

<u>Foreign Currency Risk</u>

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** | |
|---|---|---|---|---|
| **December 31, 2019** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| 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 | |
|---|---|---|---|---|
| December 31, 2018 | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| 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 | - | - |
| **Financial Liabilities** | | | | | | |
| Notes payable | 1,519,000 | 1,526,317 | 1,526,317 | - | - | - |
| 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** | | | | |
| | **12-month ECL** | **Lifetime ECL not Credit Impaired** | **Lifetime ECL Credit Impaired** | **Financial Assets at FVPL** | **Total** |
| Cash and cash equivalents (excluding cash on hand) | **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 | | | | |
| | 12-month ECL | Lifetime ECL not Credit Impaired | Lifetime ECL Credit Impaired | Financial Assets at FVPL | Total |
| 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 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.

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.

**GINEBRA SAN MIGUEL INC.**
3rd and 6th Floors
San Miguel Properties Centre
7 St. Francis Street, Mandaluyong City
1550 Metro Manila, Philippines
Telephone: (632) 8841-5100

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

**SMC STOCK TRANSFER SERVICE CORPORATION**
2nd Floor, SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Telephone: (632) 8632-34-50 to 52
Email: smc_stsc@sanmiguel.com.ph

**CUSTOMER CARE**
For inquiries, orders and suggestions on our products and services, please write or call:

**SAN MIGUEL CUSTOMER CARE CENTER**
San Miguel Properties Centre
7 St. Francis Street, Mandaluyong City
1550 Metro Manila, Philippines
Telephone: (632) 8632-2564
Mailbox No. 2623
Email: customercare@ginebra.sanmiguel.com.ph

3rd and 6th Floors, San Miguel Properties Centre
7 St. Francis Street, Mandaluyong City
1550 Metro Manila, Philippines
www.ginebrasanmiguel.com